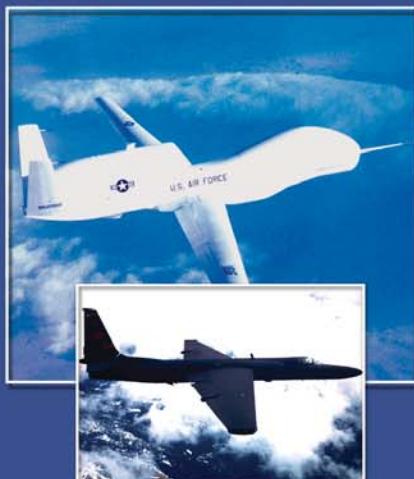


# United States Air Force

## Annual Financial Statements



# 2002



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**United States Air Force  
Fiscal Year 2002  
Annual Financial Statements**

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SECRETARY OF THE AIR FORCE  
WASHINGTON

January 2003



Message from the Secretary of the Air Force

Throughout Fiscal Year 2002, the United States Air Force performed magnificently amidst an era of new national security challenges. We served our great nation in the global war on terrorism from OPERATION NOBLE EAGLE at home to OPERATION ENDURING FREEDOM abroad. At the same time, we remained committed to investing wisely in our highly skilled airmen and transformational weapon systems. The Air Force demonstrated that it is truly an expeditionary force, capable of projecting power globally, with great precision, and faster than at any other time in our 55-year history.

Conquering these new challenges involved the skillful management and execution of our financial resources. Besides managing a budget in FY 2002 of approximately \$96.1 billion, the Assistant Secretary for Financial Management has a vision of a world-class team with enhanced skills that utilizes efficient processes and fully integrated, compatible, and interconnected flow-through systems, enabling them to perform highly valuable analysis that our Commanders want and need to support the warfighter. As these pages will attest, the Air Force Financial Management team is making progress to achieve that goal and ensure that its financial services are every bit as sophisticated as the warfighting concepts and weapon systems it supports.

Finally, the Air Force Financial Management team is leading the employment of new business technologies in processes and systems to substantially improve the accuracy and efficiency of Air Force and Defense-wide management. These efforts will be Chief Financial Officer (CFO) Act compliant and ultimately will produce auditable financial statements.

This statement fulfills the requirements of the CFO Act and documents the expenditures devoted to our General Funds and Working Capital Fund activities. The statement also briefly reviews selected performance measures established as part of the Government Performance and Results Act.

The Air Force remains ready to execute in this era of new challenges and threats. Through the expert management, control, and accountability of our finances, the Air Force will continue to provide the world's finest-equipped and best-trained air and space force to our combatant commanders and to the United States of America.

A handwritten signature in black ink, appearing to read "Michael D. Antonovich".



**DEPARTMENT OF THE AIR FORCE  
WASHINGTON DC  
OFFICE OF THE ASSISTANT SECRETARY**

January 2003

**Message from the Assistant Secretary of the Air Force,  
Financial Management and Comptroller**



This has been an extraordinary year in many respects. First and foremost we supported the war effort by effectively managing approximately \$96.1 billion during Fiscal Year 2002 and pushing resources down to the warfighter on a real-time 24/7 basis. At the same time, we took steps to shape our future by launching an effort to transform how we do business in Financial Management. By continuing to up-skill and upgrade our people, redesign our processes, and fix and/or replace our antiquated systems, we move our organization from a transactional focus to a strategic focus, ultimately increasing decision support and reducing the cost of delivering our services.

One of the first things we formally did to kick off our metamorphosis this year was to stand up the Financial Transformation Program Management Office. This assures we have the discipline and commitment in place to help us focus on being a creative, innovative, effective, and efficient operation.

But while organizational changes can be helpful, we advance the cause when we assess and redesign our core processes. We are looking at budget systems to be sure they are part of an overall strategy and structure that promotes improved processes and wise investment of limited resources. We are actively engaging with the programming and acquisition communities so that the procurement process is, as practicable, a seamless enterprise.

We have made progress toward transforming our financial systems to employ more cost effective and efficient uses of both human and technical resources to improve program results and mission accomplishment. We are directly involved in the work of the Defense-wide Financial Management Modernization Program (FMMP), a comprehensive project to redesign enterprise business processes and apply the right information technology solutions. We in the Air Force Financial Management Community, and our business support colleagues, will benefit from this ambitious program to significantly change and improve the way we do business, reach Chief Financial Officer (CFO) Act Compliance and produce accurate financial statements.

This statement also fulfills the requirements of the CFO Act and documents the expenditures devoted to our General Funds and Working Capital Fund activities and briefly reviews selected performance measures established as part of the Government Performance and Results Act.

Finally, while organization, processes, and systems are important, human resources are the most vital. My strategic goal for human resources is to recruit, prepare, and retain a well-trained and highly educated financial management professional team for today and tomorrow as we continue to beat the drums of change to achieve our shared vision of becoming strategic partners providing high-quality, customer-focused decision support and financial services.

Assistant Secretary of the Air Force  
(Financial Management and Comptroller)



# General Funds Overview

*The promises of the American dream—freedom, prosperity, and the pursuit of happiness—offer great hope to people across our nation. As your U.S. Air Force, we exist to defend these values.*

—Dr. James G. Roche  
Secretary of the Air Force

## Air Force in Action

The Air Force decisively reaffirmed its unassailable and unmatched value, flexibility, and promise of air and space power during FY 2002. Air Force efforts ranged from combat operations and homeland defense in the war against international terrorism, to actions that guaranteed the readiness, health, security, and morale of its warfighters.

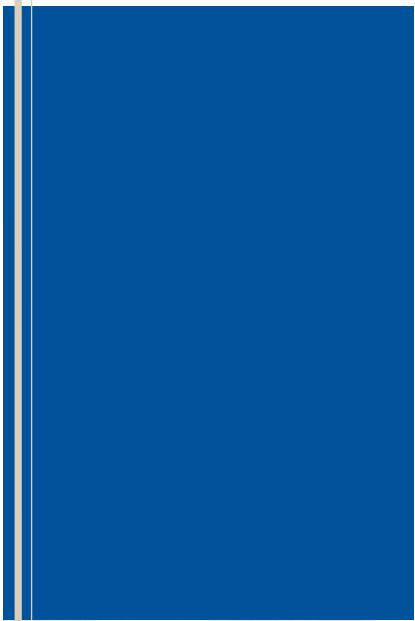
In FY 2002, the Air Force participated in the direct defense of the American homeland, OPERATION NOBLE EAGLE. This operation comprised combat air patrols and alert aircraft to enhance the security of U.S. airspace as well as to protect civil population centers, critical infrastructure, and special events.

The Air Force also conducted offensive operations under OPERATION ENDURING FREEDOM during FY 2002. Impressively, the combat operations were conducted primarily by air and included reconnaissance, aerial refueling, and strike missions, as well as simultaneous humanitarian air drop missions by C-17s.

The remarkable performances of OPERATION NOBLE EAGLE and ENDURING FREEDOM demonstrate the significance of Air Force contribution to the defense of this nation. Indeed, the use in Afghanistan of special operations air controllers on horseback, directing strikes of precision-guided munitions, underscored the type of versatility and flexibility already endemic to the Air Force's Transformation efforts.

These transformational efforts continue as new Air Force initiatives are developed to harness global reconnaissance and strike assets for the conduct of effective and persistent air-to-ground operations beyond the range of enemy defenses under adverse weather conditions, 24 hours a day, seven days a week.

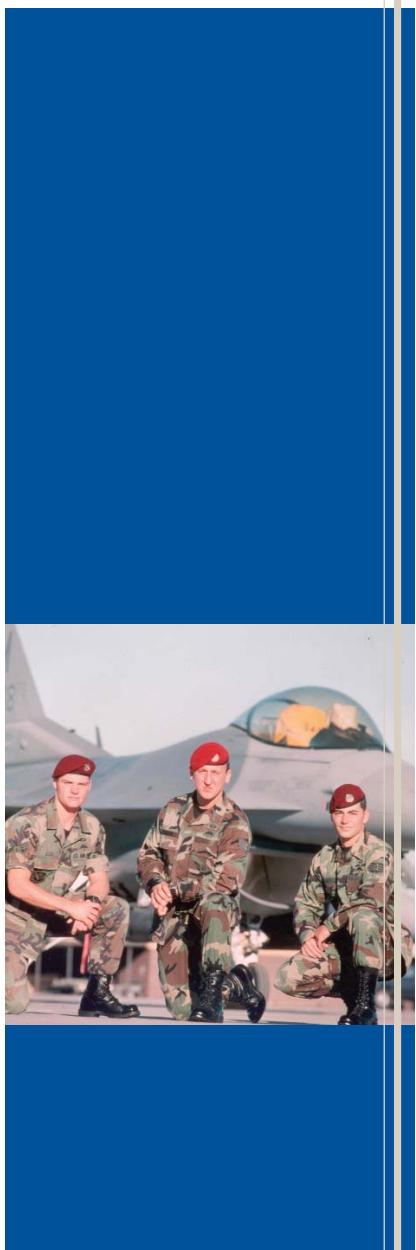
Throughout FY 2002, the Air Force honed its edge, enabling it to remain expeditionary and responsive to the needs of the United States and to continue to provide a full spectrum of air and space capabilities that deliver unprecedented firepower, mobility, awareness, and deterrence.



# Air Force Organizations

*If strategic planning is the brain of any successful organization, and a talented workforce the heart, then superb financial management is the lifeblood of a dynamic, world-class enterprise. Whether our financial professionals are conducting essential accounting and budgeting tasks or broader value-added management innovations, their efforts will enable the Air Force to achieve its transformational goals and remain the best managed entity in government.*

—Dr. James G. Roche  
Secretary of the Air Force



In FY 2002, tens of thousands of Air Force Active Duty members, Air National Guardsmen, Reservists, and Civilians ensured air and space security over America.

These integrated components of the Air and Space Expeditionary Force were involved in major operations in FY 2002. Despite arduous demands, these various organizations contributed mightily to the manning, equipping, and training of the dedicated forces at the front lines of the campaigns. Equally, the new homeland security mission and the requirements of fighting a new kind of war require the proper

alignment and configuration of personnel to preserve and optimize combat capability.

## Major Commands, Direct Reporting Units, and Field Operating Agencies

### Major Commands

The Air Force is organizationally aligned into constituent groups that start with major commands. A major command represents a subdivision of the Air Force assigned one or more elements of the Air Force

mission, and is subordinate to Headquarters Air Force (HAF). Bases or installations fall under MAJCOMs.

Air Force Space Command (AFSPC) assumed command this year of the Space and Missile Systems Center (SMC) from Air Force Materiel Command (AFMC). The SMC transfer was one of several recommendations made by the United States National Security Space Management and Organization Commission to consolidate and improve the management focus on Air Force space programs. AFSPC acquired approximately \$4.8 billion in FY 2002 budget authority and more than \$55 billion in previous-year and expired-year funding from AFMC. AFSPC is now responsible for the second largest budget in the entire Air Force.

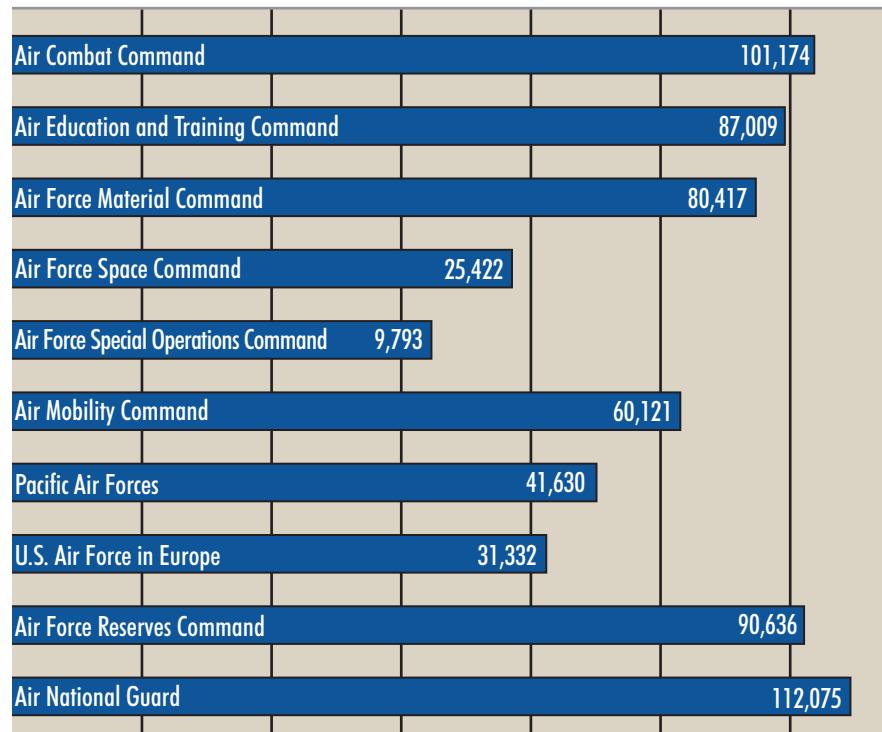
## Direct Reporting Units

Direct Reporting Units (DRUs) report directly to Headquarters Air Force, owing to singular mission responsibilities.

## Field Operating Agencies

Field Operating Agencies (FOAs) execute responsibilities under the organizational aegis of a functional manager at Headquarters Air Force.

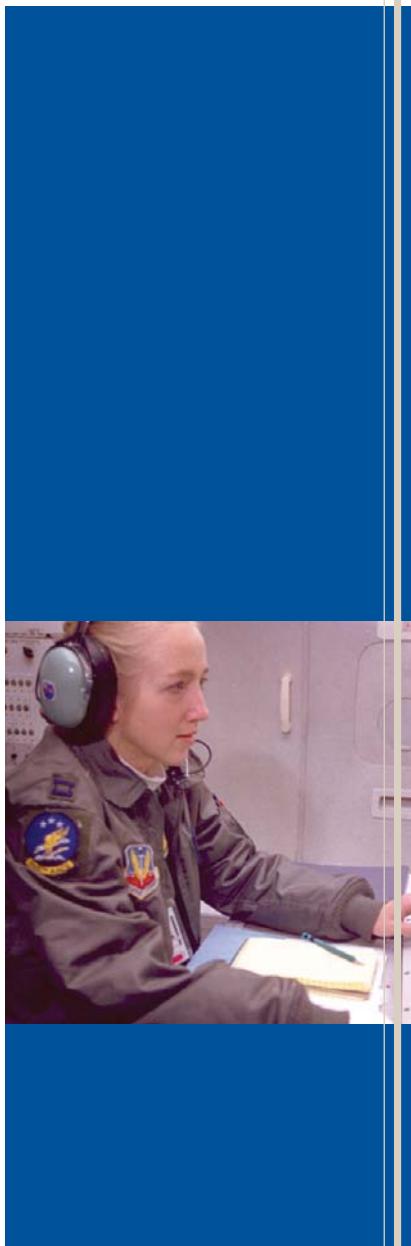
## Air Force Major Command Respective Strength



# Fiscal Year 2002 Results

*American people look to their men and women in uniform as symbols of America's strength, power, and determination.*

—General John P. Jumper  
Air Force Chief of Staff



The FY 2002 budget of approximately \$96.1 billion increased slightly over FY 2001. This amount includes Operations and Maintenance (O&M); Military Personnel (MILPERS); Procurement (PROC); Research, Development, Test, and Evaluation (RDT&E); Military Construction (MILCON); and Military Family Housing (MFH). These funds do not include revenue received from the working capital fund, other Services, DoD agencies, or other Federal agencies.

The trend in increased budget authority will likely continue due to the global war against terrorism.

## Budget by Appropriation Categories

Six major appropriation categories comprised the Air Force FY 2002 budget. The appropriation categories included:

O&M—pays the salaries and benefits of civilian employees and other day-to-day operating costs (e.g., fuels and spare parts)

MILPERS—finances the salaries and benefits of uniformed personnel

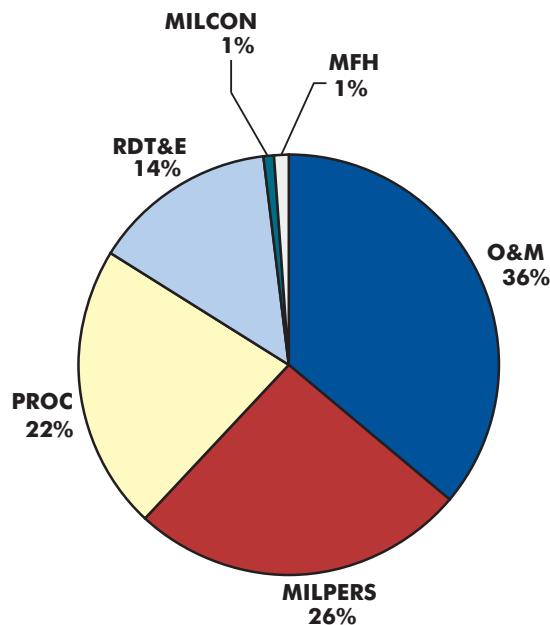
PROC—finances major system purchases

RDT&E—funds system development

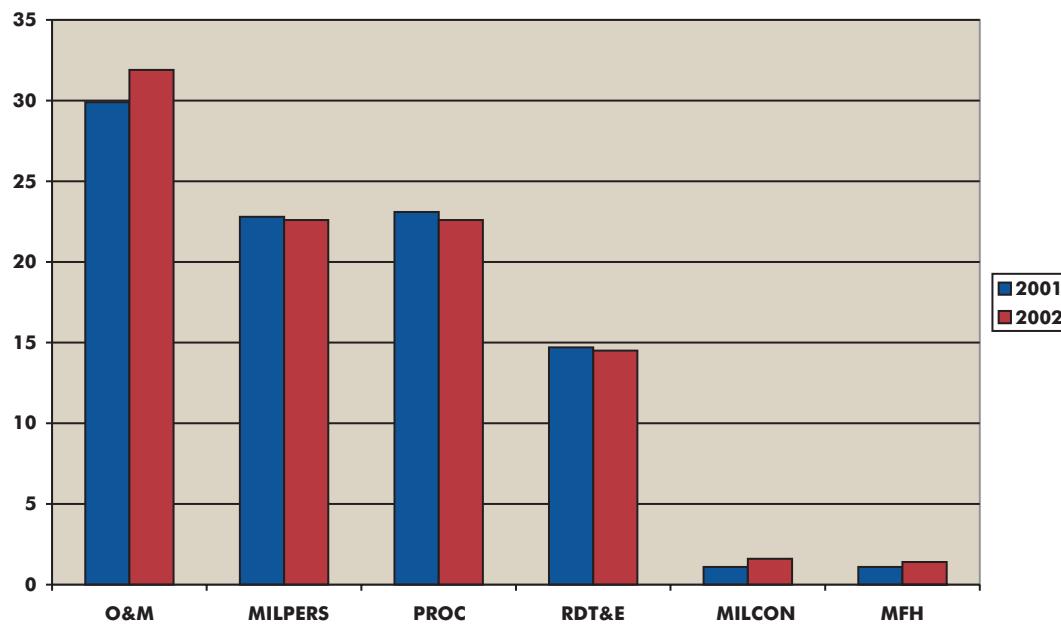
MILCON—pays for facilities construction

MFH—provides for the operation, maintenance, and construction of housing units.

## FY 2002 Budget—Major Appropriations



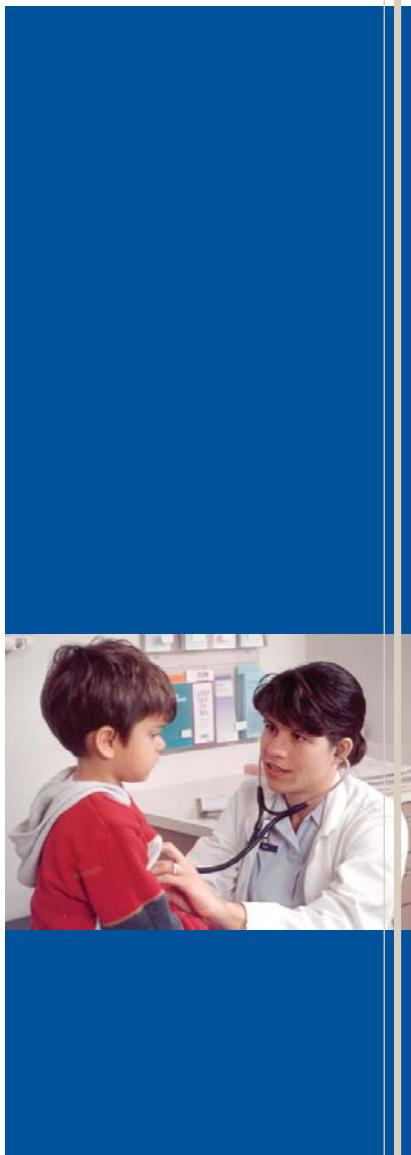
## FY 2001/2 in FY 2002 \$B Major Appropriations



# Performance Measures

*America's Air Force is built on the solid foundation of our intelligent, professional, and dedicated people. Our airmen are a national treasure.*

—Dr. James G. Roche  
Secretary of the Air Force



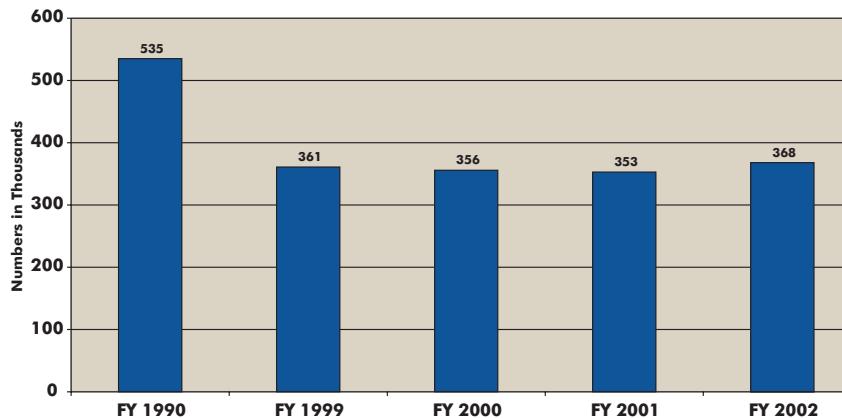
In FY 2002, the Air Force continued to measure its performance under select, strategically established goals. These Air Force metrics have been aligned in direct support of the corresponding, overarching goals of the Department of Defense, and in turn support the Government Performance and Results Act (GPRA) of 1993. Collectively, the USAF goals establish a common organizational direction for subordinate units as

they develop strategic goals, perform essential tasks, and measure their performance.

## Goal 1—Quality People

The foundation of the United States Air Force is its people. They are the Air Force's single most crucial readiness component. The people who fight and win America's air wars must be skilled, motivated, and dedicated.

### Active Military



The Air Force relies on a highly skilled, educated, and technologically superior force to function as an effective warfighting team. The total force includes Active, Reserve, Guard, Civilian, and contractor personnel.

Force structure drawdowns and a mounting demand for U.S. military presence around the globe continues to increase deployed and non-deployed personnel commitments. Still, Air Force members stand proud to serve their country. Senior Air Force leaders value their service and readily undertake the obligation to care for them and their families.

The Active Military chart shows a leveling trend over the last four years, although active strength has declined approximately 31 percent from 1990 levels.

The Active Civilian chart shows that civilian population trends in the active Air Force have declined by more than 30 percent since

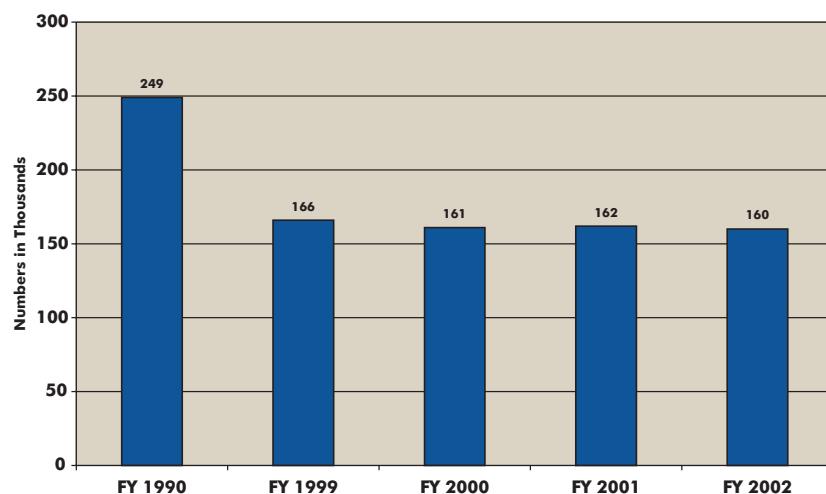


FY 1990. Due to personnel drawdowns in the past decade, new hires have been limited. Moreover, many experienced employees have moved on to other jobs or have taken advantage of early retirement options. As a result, 42 percent of Air Force civilian personnel will be eligible to retire in the next five years. The Air Force is taking necessary steps to reshape the civilian force to ensure future availability of sufficient and experienced personnel

with the requisite skills to fill the positions. The reserve component consists of the Air Force Reserve and the Air National Guard. These personnel are integrated into all mission areas, and nearly half of the mission-oriented squadrons in the total Air Force are in the reserve components. In October 2002, the Air Force stood up its first blended wing, operating the E-8C Joint Stars, composed of both Air National Guardsmen and Active Duty members. Further, a majority of the Air Force's total aerial refueling and tactical airlift capabilities are in the Air National Guard and Air Force Reserve.

In concert with the proper emphasis on personnel, the USAF ranks quality of life (QoL) as one of its top priorities. USAF QoL initiatives acknowledge the intense demands placed on the mission-focused total force. The Air Force will, with the continued support of Congress, pursue adequate manpower;

### Active Civilian



improve workplace environments; seek fair and competitive compensation and benefits; balance deployments and exercise schedules; provide safe, affordable, and adequate housing; enhance community and family programs; improve educational opportunities; and provide quality health care.

Efforts to compensate the mission-focused total force continued to progress with the FY 2002 National Defense Authorization Act (NDAA). As a result, key legislation directly impacting total force pay and compensation, travel and transportation entitlements, retirement, and education programs, were authorized and implemented over this past year.

Enhancing community and family programs is a crucial link between members, families, and leadership, creating the necessary support to optimize retention. In 2001, the Air Force began taking a more collaborative approach to community and family service delivery by creating Community Action Information Boards (CAIBs) and Integrated Delivery System (IDS) working groups at the Air Staff, MAJCOM, and Installation levels. The CAIB brings together senior leaders to review and resolve individual, family, and installation community issues that impact military readiness and quality of life. The IDS working group brings together all community and family agencies to ensure our military members and their families have access to the services and

activities they need. Additionally, Family Support Centers continue to enhance recruiting and retention initiatives by meeting individual and family needs for information concerning deployment, reunion, financial readiness, life skills education, relocation, transition, spouse employment, and AF Crossroads.

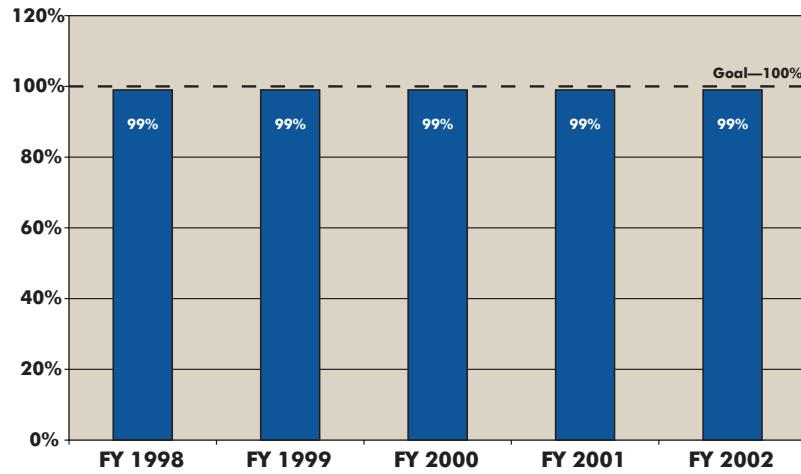
## Recruiting

As FY 2002 ended, the Air Force slightly exceeded its end-strength

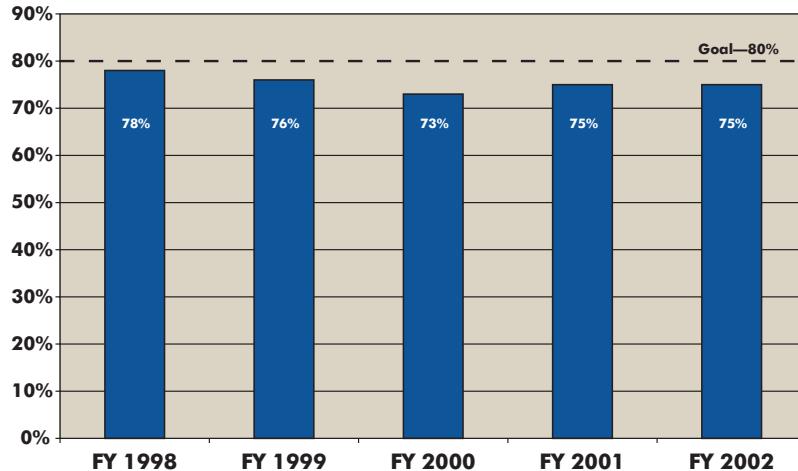
requirements. The Air Force also exceeded its FY 2002 recruiting goal of 37,283, while sending 36,396 people to basic training. Further, the Air Force enters FY 2003 with the strongest Delayed Entry Program bank in recent years. Over half of the FY 2003 accession needs are already under contract and scheduled to enter active duty during the next year.

The Air Force exceeded its FY 2002 recruiting goal not by lowering stan-

**Recruits with High School Diploma**



**Recruits in Top Half of Entrance Test**



dards, but by intensifying efforts to promote the benefits of the Air Force. This success, in the face of stiff competition from the private sector and an increased propensity to pursue college opportunities, is the result of hard work and new approaches.

Such success reflects a combination of measures—more recruiters on the street, a focused television advertising campaign, and higher enlistment bonuses. These are all important to manning the force, and the Air Force will continue to make recruiting a top priority.

In support of its recruiting mission, the Air Force:

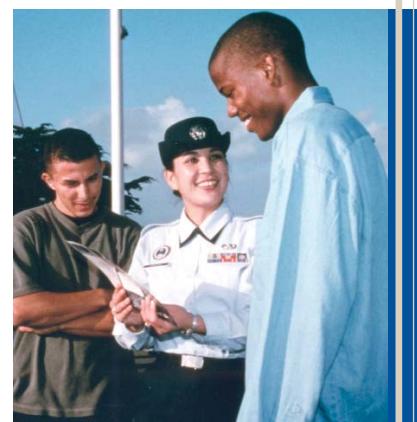
- Increased the number of production recruiters from 1,085 at the beginning of FY 1999 to 1,650 by the end of FY 2002
- Instituted an aggressive advertising campaign to include a full

year of national television advertising

- Kept pace in cyberspace, modernizing the innovative and artistically designed USAF web site to promote a better understanding of the Air Force overall, thereby effectively reaching the Internet generation.

The need to recruit qualified and diverse men and women, both military and civilian, to serve in the U.S. Air Force remains as important today as it was when the service was established. A service population reflective of the strengths of a diverse America will provide the necessary new talent required for today's unique challenges. If the Air Force succeeds in propagating its message to young people across the nation, then it is confident in a positive response.

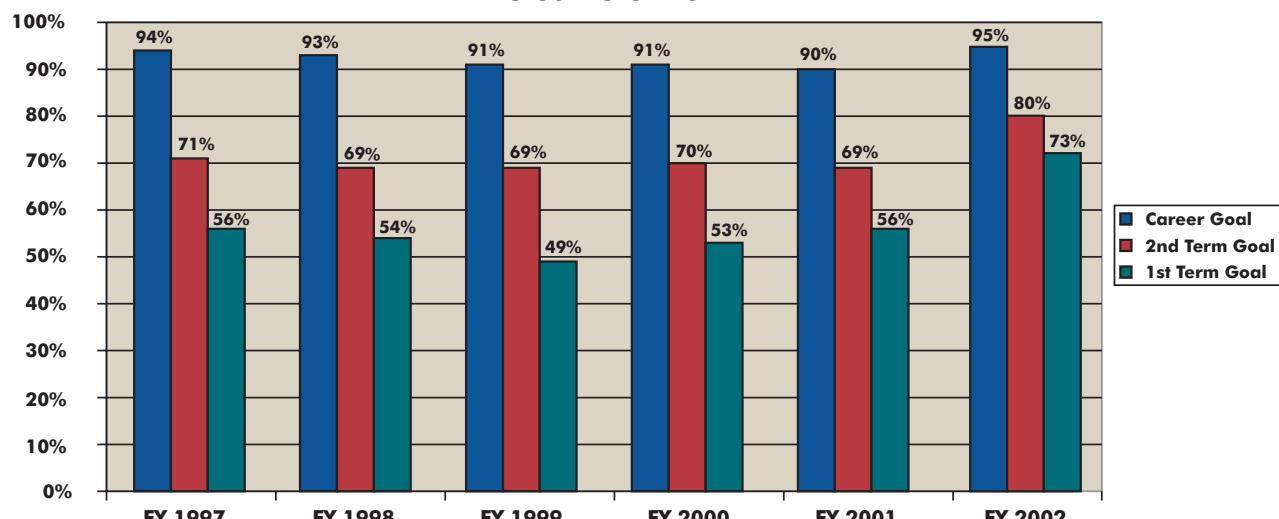
The Air Force hopes to attract more former airmen (as well as soldiers,



sailors, and marines) to return to active duty in FY 2003. The service actively recruited these experienced military professionals, returning 1,571 veterans to uniform in FY 2002. In FY 2003, the Air Force hopes to bring at least 1,500 former members into the active duty ranks.

In terms of quality, more than 99 percent of those enlisting are high school graduates.

### Enlisted Retention



Note: Enlisted retention rates for FY2002 are largely distorted due to the effects of Stop Loss. Stop Loss is the term that refers to Title 10, section 12305, Presidential authority, that when implemented, suspends separations and retirements from the Active Duty, Air National Guard, and Reserve components. The data does not give an accurate picture of retention health. The Air Force will publish monthly FY2003 data that provides a more accurate picture of current retention trends.

## Education and Training

Recruiting good people into the Air Force is just the beginning. They need training to perform highly technical work—the basis of the Air Force's record of military success.

The Air Force continues to offer professional military education (PME) programs that span the careers of both officers and enlisted members. From Airman Leadership School to the Air War College, PME provides opportunities to all Air Force personnel, granting them the skills and knowledge they need to manage Air Force resources and to operate weapons systems.

The newest PME course, the Air and Space Basic Course (ASBC) offered at Maxwell Air Force Base, Alabama, is designed to meet the needs of newly commissioned line, non-line,



active-duty, Guard and Reserve officers, and selected civilian interns.

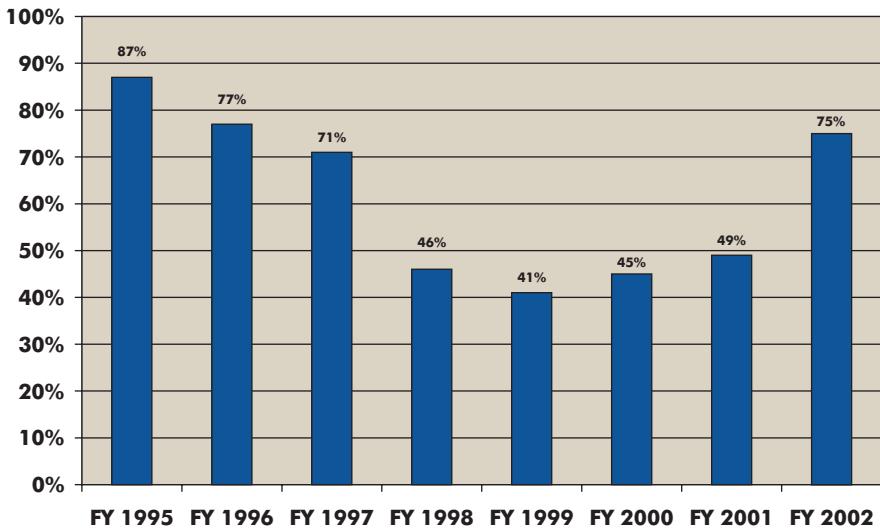
Technical training courses are a vital part of the broader training system. For example, the 51-day Security Forces Apprentice course teaches airmen all aspects of their multi-faceted career field missions. The Community College of the Air Force

(CCAF) offers numerous courses leading to an Associates degree and had awarded 229,552 degrees at the close of FY 2002.

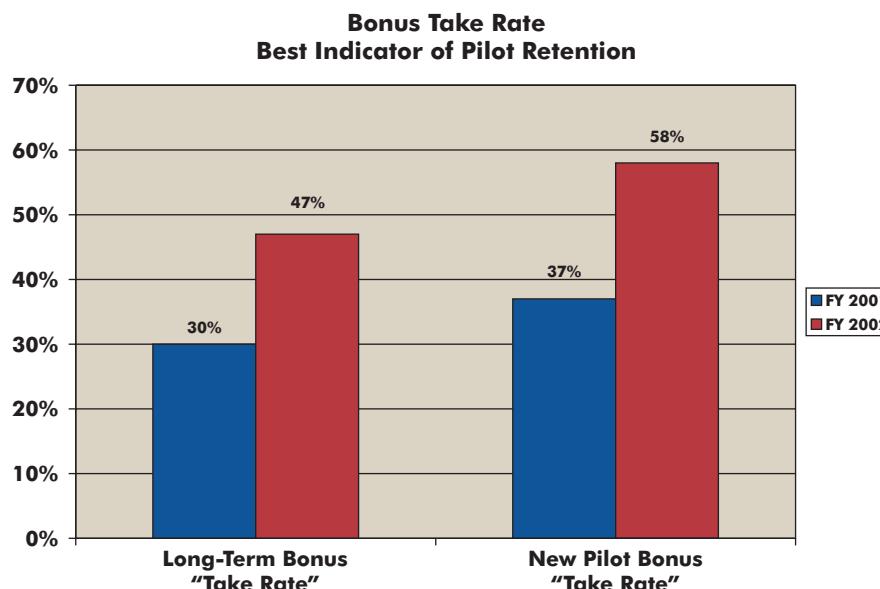
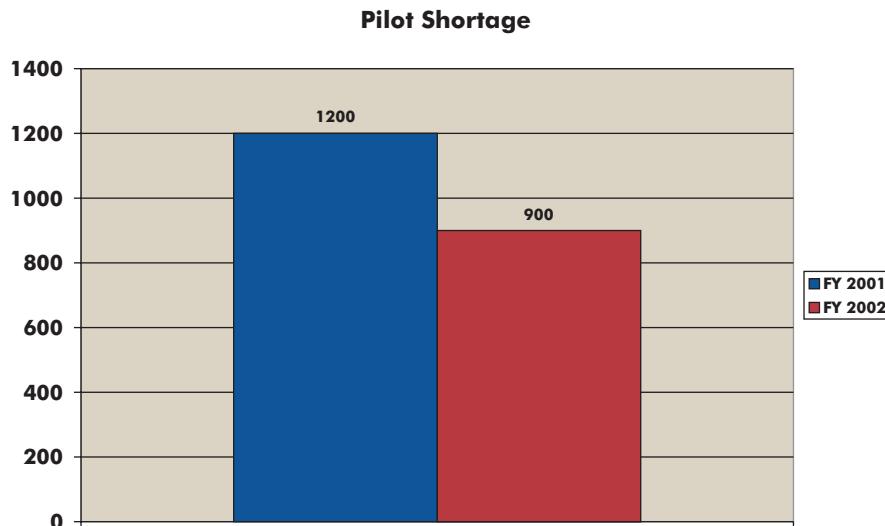
In FY 2002, for the first time ever, eight enlisted members were admitted to the Air Force Institute of Technology (AFIT) in highly technical areas to pursue a master's degree. Given the greater emphasis on a more technical Air Force, enlisted members will share in the responsibility to meet the many challenges in the immediate years ahead.

In FY 2002, a Secretary of the Air Force study was completed to rationalize the Naval Postgraduate School and AFIT. While specific recommendations are still in process, better cooperation, exchange of professors, and a common board of governance have all been approved as initial steps for commonality in DoD science and engineering advanced academic degree needs.

### Pilot Retention—Cumulative Continuation Rates



Note: CCR rates for FY2002 are largely distorted due to the effects of Stop Loss. The data does not give an accurate picture of rated health. FY2003 trends will be closely monitored to provide a more accurate trend.



A new officer education development paradigm was developed to better educate officers based on specific career phases and AF needs. The model will permit short modular course completion, specific technical training needs, and PME at appropriate sequenced points for individual and Air Force needs. This model parallels best-business practices in using resources when and where needed.

First placements in specific education opportunities could begin as early as January 2003.

### Pilot Training

Pilot training is of particular concern to the Air Force, considering the number and quality of trained pilots correlate directly to the ability of the service to accomplish its mission.

### Retention

Enlisted retention rates were uncharacteristically high in FY 2002 due to Stop Loss.

In April 2002, the Air Force completed its initial re-recruiting for the force test program. The program concentrated on development engineers entering critical decision points. The Air Force is seeking to institutionalize the re-recruiting program as a retention initiative and expand the program to other critical Air Force specialties.

The Air Force will soon announce the Critical Skill Retention Bonus (CSRB) program for three of the five designated critical officer skills.

Payment of CSRB is viewed as an important retention tool for these career fields—all of which have had the lowest retention rates in the Air Force for several years. Payment to all critical officer skills will not occur in FY 2003 due to funding limits.

The Air Force Reserve met its end-strength goal by reaching 100 percent.

### Rated Retention

A special subset of the retention challenge is maintaining the health of the rated force in order to preserve the warfighting capability of the U.S. Air Force. The Air Force boasts the world's most efficient and talented support force, combined with technologically superior, integrated air and space systems.

However, retention of skilled pilots,



navigators, and Air Battle Managers (ABMs) remains crucial to accomplishing operational missions. Further, at a cost of several million dollars to train and season, a veteran pilot is the Air Force's most expensive personnel asset.

Prior to September 11, 2001, a strong economy and unprecedented airline hiring, along with a continued high operations tempo, contributed to an end of FY 2001 shortage of approximately 1,200 pilots, 9 percent of the requirement. By the end of FY 2002, the pilot shortfall dropped to 7 percent of the requirement. This short-term inventory increase is attributable to the short-term decline in airline pilot hiring combined with the positive retention effects of Air Force initiatives such as Aviator Continuation Pay (ACP) in addition to the Permanent Rated Recall and Rated Retired Recall programs. In FY 2002, the pilot long-term bonus "take rate" (a telling indicator of

pilot retention trends) was approximately 47 percent. This is an increase from the 30 percent "take rate" during FY 2001. The total take rate for initially eligible pilots was also up for FY 2002 at 58 percent compared to 37 percent in FY 2001. However, because there are fewer initially eligible pilots in this year group (due to production in the mid-1990s), significant retention challenges remain. In fact, Air Force inventory forecasts estimate pilot shortfalls of 600-900 pilots through FY 2010. Thus, pilot retention will continue to be a significant issue for the long-term health of the USAF warfighting capability.

ABM shortfalls are no less acute as ABM inventory is estimated to be approximately 13 percent short of requirements, during a time when the demand for their expertise at home and abroad is greatest. ABMs are a resource critical to Air Force warfighting capabilities as they operate in low-density/high-demand

missions and aircraft. To help alleviate these shortfalls, senior navigators are being used to backfill empty pilot positions on the headquarters staff. By efficiently using navigators' rated expertise, the Air Force has raised overall rated HQ-level staff manning to 76 percent (pilot rated staff positions are currently manned at only 58 percent). However, nearly 50 percent of the current navigator force will be eligible to retire within the next four years.

The Air Force's integrated focus on retention initiatives will continue to emphasize long-term rather than short-term retention. To date, initiative options implemented include: increasing active duty service commitment, increased compensation, managing operations tempo, and enhancing quality of life programs.



## Goal 2—Operational Performance

Two objectives of operational performance are: (1) to improve mission effectiveness and readiness while minimizing risk, and (2) to enable joint force commanders to respond to a full spectrum of operations by furnishing appropriately sized, trained, mobile, ready forces and equipment to successfully execute USAF mission tasks.

### Air Force Flying Hour Program

The Air Force flying hour program was developed to provide training opportunities to prepare units to support their mission to the warfighting commanders. The execution of the President's Budget (PB) flying hour program is impacted by contingency operation support, maintenance issues, fact-of-life impacts, aircraft flight operation suspensions, aircraft delivery delays, weapon system retirements, and approved program changes. Though the execution of the flying hour program does not define unit readiness, it can be a forward indicator of possible readiness issues. The MAJCOMs determine the reasons for execution deviations so



required courses of action may be determined. Additionally, these evaluations provide insight into possible future-year requirements.

FY 2002 flying hour program execution significantly increased compared to the FY 2002 PB, particularly in the fighters, bombers, and tankers. The execution was impacted by the support of contingencies—OPERATION ENDURING FREEDOM and OPERATION NOBLE EAGLE.

The hours shown in the Flying Hour Program Execution table are the Congressionally funded O&M hours. They do not include incrementally funded contingency hours, Transportation Working

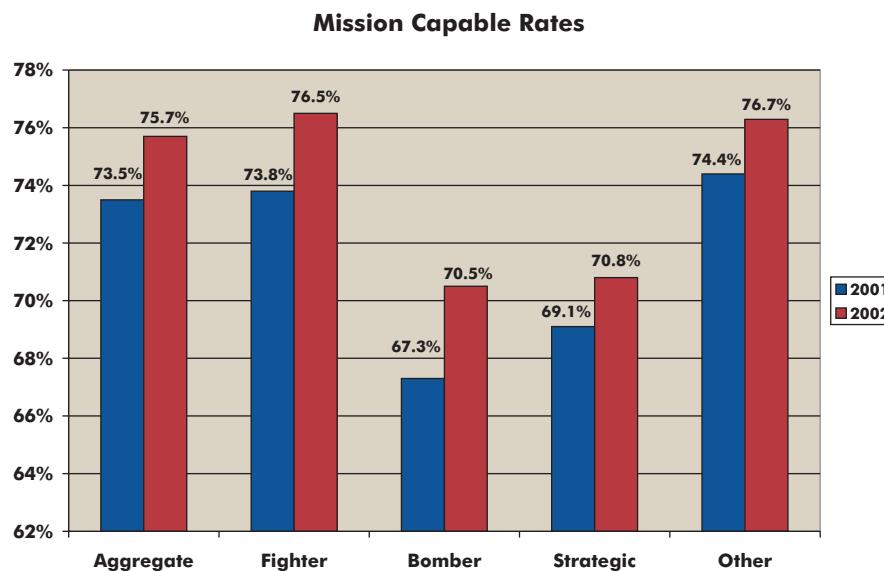
Capital Fund hours, foreign national reimbursable training hours, Special Operations hours, and RDT&E hours. The flight suspension of the T-3A significantly impacted FY 1998-1999 budget execution. If the congressional program is adjusted to account for this grounding action, the execution percentage for FY 1998 and FY 1999 would be 96.5 percent and 95 percent, respectively.

### Mission Capable Rates

A measure of aircraft readiness is mission capable (MC) rates. Expressed in percentages, MC rates are the number of times USAF aircraft are ready to perform an assigned mission. According to aggregate and by-aircraft mission capable rates for FY 2001 and 2002, Air Force readiness for FY 2002 stands at 75.7 percent in the aggregate and reflects the second consecutive yearly increase in mission capability.

**Flying Hours Program Execution**

| Hours in Millions          | FY96  | FY97  | FY98  | FY99  | FY00  | FY01  | FY02  |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|
| <b>Programmed</b>          | 1.327 | 1.286 | 1.290 | 1.324 | 1.315 | 1.320 | 1.324 |
| <b>Actual</b>              | 1.243 | 1.179 | 1.194 | 1.194 | 1.273 | 1.303 | 1.398 |
| <b>Percentage Executed</b> | 93.7  | 91.7  | 92.5  | 90.2  | 96.8  | 98.7  | 105.5 |



While the aggregate MC rate stands at 75.7 percent, specific MC rates vary according to aircraft type, as shown above:

- Fighter MC rates increased from FY 2001's rate of 73.8 percent to 76.5 percent in FY 2002, while Bomber MC figures also increased from 67.3 percent in FY 2001 to 70.5 percent in FY 2002.
- Strategic Airlift MC rates improved from 69.1 percent

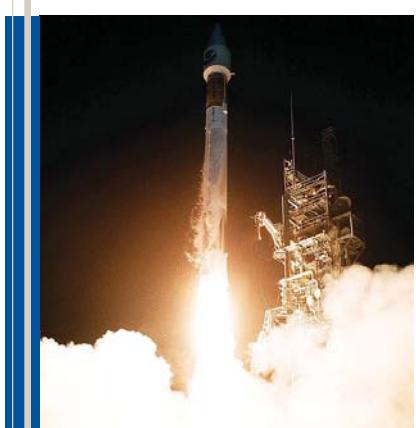
in FY 2001 to 70.8 percent in FY 2002.

- The MC rates for aircraft in the "Other" category also improved, increasing 2.3 percentage points over FY 2001.

### Non-Mission Capable Rates

As described in the working capital fund (WCF) section of this overview, there have been significant improvements in logistics support for the warfighter.

Total Non-Mission Capable for Maintenance (TNMCM) rates improved to 19.4 percent fleet-wide—the best rate in four years. Total Non-Mission Capable for Supply (TNMCS) rates improved to 11.7 percent from a high of 14.3 percent in FY 2000, which represents an 18-percent improvement in supplying critical aircraft parts to the flightline mechanic.



Similarly, cannibalization rates are down to 9.4 cannibalizations per 100 sorties, a 24 percent improvement from its FY 1997 high.

Behind the four major readiness indicators are corollary metrics that provide even more evidence of the major improvements seen in parts support. Parts backorders are down from a high of 615,000 backorders in December 1998 to an average of 210,000 in FY 2002. Furthermore, Mission Capable (MICAP) incidents and hours are both significantly down, with MICAP hours down 21 percent since the beginning of this fiscal year. Beginning in FY 2002, the Air Force also budgeted and paid for Readiness Spares Package (RSP) kits for both strategic airlift and fighters, improving the deployability and supportability of expeditionary aerospace forces.

These examples highlight the improved supply support the field is experiencing, and all these improvements occurred while the Air Force engaged in multiple contingency operations.

Equally telling is the improvement witnessed in engines. The total Engine Non-Mission Capable for Supply (ENMCS) rate for AF engines dropped to 13.2 percent, well below the 19.7 percent rate in FY 1998. That 6.5-percentage-point decrease contributed to the Air Force having an additional 215 engines in war readiness stocks since FY 1998. Several engines have seen improvements far beyond

those represented by the aggregate rate. Since FY 1998, C-5 engines experienced a 75 percent improvement in parts support, with its ENMCS rate dropping from 10.9 percent in FY 1998 to just 2.9 percent. Additionally, the A-10 experienced a significant four percentage point improvement in ENMCS, with 25 additional war readiness engines since last year. Other aircraft engines had remarkable improvements in reliability as well. In Pacific Air Forces (PACAF), the conversion of the F-16 engines at 3 wings from the F110-100A to the F110-100B resulted in a 35-percent reduction in unscheduled engine removals. The conversion of KC-135Es to KC-135Rs, where the TF33 engine is replaced by the F108, has also demonstrated Reliability and Maintainability (R&M) paybacks—80 percent fewer unscheduled engine removals and an 83-percent lower ENMCS rate with the new engine—all of which translates into more combat capability and less strain on the professional maintainers.

Improving mission capable rates for aircraft and engines is merely one method to enhance combat power;



making more aircraft available to the warfighter is also vital to our customer. While programmed depot maintenance and fleet modernization will always be part of the force, the Service strives to make the process more effective and more efficient to increase the number of aircraft available to fly primary missions. Depot production is above target, and on-time due date performance is trending upwards. At the same time, defect rates, quality defects, and depot-possessed aircraft are down. For example, in October 2000, there were 176 KC-135 "depot status" aircraft. At the end of FY 2002, there are only 89

aircraft in depot status—87 more aircraft on the ramp since October 2000. In just two years, KC-135 flowdays have been reduced by 50 percent.

The Air Force's logistics readiness indicators provide a snapshot of the gains made by "effects-based resourcing," by enhancing processes and focusing on the needs of the warfighter. No doubt much work is unfinished, but given the proper resources, the path is set for continued success.

### Goal 3—Continued Air Force Transformation to Address Future Challenges

The objective of Goal 3 is to prepare for and anticipate uncertainties by providing a transformation program that implements the fullest range of technological, process, and people innovation and



**The greatest element of transformation being employed is the ingenuity of our young people.**

—General John P. Jumper  
Air Force Chief of Staff

advancement, geared to qualitatively superior warfighting and business capabilities.

Transformation represents a process of change devoted to maintaining and advancing Air Force superiority in its myriad missions. By its nature, transformation is ongoing and continuous to thwart any potential adversary's asymmetrical efforts. Air Force personnel used innovation to transform battle space engagements, while others worked tirelessly improving the way weapons and weapons platforms are designed, acquired, and maintained.

Air Force Transformation is not focused solely on end-user or operational considerations. Indeed, while warfighting concepts and employment skills remain superior in this era of dynamic, ever-changing

threats, they now have a valued partner: responsive, agile, flexible, horizontally integrated business processes that encourage and reward innovation, are responsive to customer needs, empower employees, and maximize resources available to the warfighters (people, time, money, and material).

Fundamentally transforming Air Force application of technology, concepts, and organizational structures has already produced dramatic results. This paradigm shift—a departure from business as usual—is no longer a luxury, but an operational necessity. Although the Air Force is not a business, many of the challenges it faces can benefit from the adoption of best-business practices—effectively “de-layering” the organization, pushing decisions down to the level best optimized for decision-making, and managing for results.

### Financial Management Transformation

The Air Force is in the midst of a profound, exciting, and critical transformation. Without question, sound financial management is at the core. Air Force Financial Management will accordingly shift



from the current labor-intensive, transaction-focused customer service system to a more valued “strategic partner” role. Financial Management now already occasions the application of tools, techniques, training, and technology to reduce the time and expense of processing transactions and to shift focus toward vastly superior decision support.

In April 2002, the Air Force Financial Management Transformation Vision Statement was released and, as a result, the Financial Management Transformation Program Management Office (SAF/FMT) was created to help make it a reality. To bring the fight to the field, SAF/FMT conducted a series of Financial Management Transformation Workshops for Major Command representatives as well as for financial managers in Acquisition. FMT has also played a key role in drafting and/or coordinating the Office of the Secretary of Defense Transformation Planning Guidance, the Air Force Transformation Flight Plan, the Air Force Business



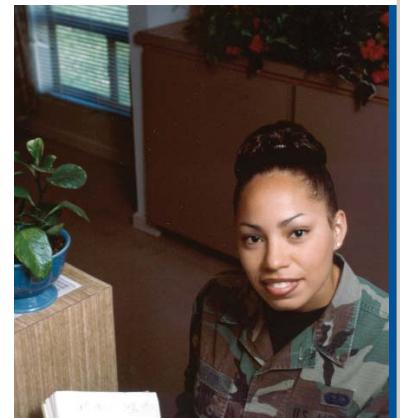
Transformation Plan, and the Customer Service Integration Plan. These plans are also action- and results-oriented, ensuring financial management relevance in the 21st century.

Correspondingly, Air Force Financial Management senior leaders have selected a set of transformation initiatives to realize the benefits of transformational financial management. When implemented, they will produce an Air Force where every dollar expended correlates to the correct balance between supporting the mission, maintaining the infrastructure, and taking care of the people. Major new initiatives to be accomplished by the Secretary of the Air Force for Financial Management and Comptroller (SAF/FM) follow.

**Establish an Information Technology Directorate.** SAF/FM is responsible for many of the financial management systems used at headquarters and by the Major Commands and bases. In addition, it plays a significant role in a variety of important OSD systems initiatives, including the Financial Management Modernization Program (FMMP) and the Defense Integrated Military Human Resources System (DIMHRS). To optimize performance related to these initiatives, an analysis was accomplished to determine how financial management Information Technology could be used most effectively. The analysis supported the creation of an Information Technology Directorate

that will support all internal systems and will also provide a single interface point with the various external information technology efforts that relate to financial management. The resulting holistic perspective will facilitate sound financial management and the modernization of the supporting technical infrastructure. This new organization will be created in FY 2003.

**Establish a Workforce Management Office.** As a result of current and future challenges facing our financial management workforce, an office will be established to address those specific needs. A Human Resources (HR) Task Force was established with representatives from the Cost, Budget, and Financial Operations communities, including both the military and civilian members of our workforce. In July 2002, the HR Task Force recommended an office organizational structure to support workforce management and development, as well as professional



education and training, and to perform additional workforce analysis and evaluation. The mission of the office is to effectively and efficiently manage the Air Force financial management workforce to attain goals set forth in the April 2002 Air Force Financial Management Vision Statement. This new organization will be created in FY 2003.

**Air Force Customer Service Concept, Phase I—Military Pay.** Customer service has been fragmented across various functional communities such as personnel,



financial management, logistics, medical, family support, etc. The delivery of these services is not sufficiently responsive to Air Force personnel and is time- and labor-intensive. The goal is customer-focused, mission-driven service leveraged by technology. The service concept is integrated "people" services for "one-stop shopping" 24/7, anytime, anywhere customer service to active duty, civilian, ANG, reserve, retirees, and family members. Phase I is focused on military personnel/military pay customer service using a tiered concept: first, to offer web access and multi-functionality; second, telephone contact and service; and finally, face-to face expert assistance as needed.

#### **Vendor/Commercial Pay Concept.**

The current process for vendor payment is complex and fragmented, with multiple stakeholders.

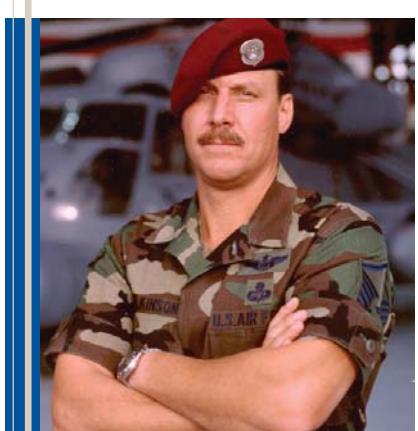
Contractual payments require the requesting activity to submit a purchase request, the contracting function to award the contract, the vendor to fill the order and submit an



invoice, the requesting activity to receive and accept the goods, and the paying office to make payment on the invoice. Miscellaneous payments require the requesting activity to be issued funding authority to authorize a miscellaneous service contract, the vendor to provide the requested service and submit an invoice, the requesting activity to receive and accept the services, and the paying office to make payment on the invoice. This process requires unnecessary certified invoices, and miscellaneous obligations and payments require extensive manual input (approximately 60 percent of workload). Excessive interest payments and lost discounts result from paying office, receiving report, and certified invoice delays. The excessive billing costs are primarily attributable to manual processing. The envisioned end state is an automated vendor payment environment (e-commerce) where a minimum amount of discounts are lost, no

interest penalties are incurred, and billing costs are reduced to a minimum amount.

**Reengineer Wing/Unit-Level Resource Management Process.** The wing and unit level financial decision support process resides primarily within the Financial Analysis Branch of the Comptroller Squadrons. These offices provide a full spectrum of services, including developing financial plans, managing budget execution, and coordinating requirements. They provide recommendations to the commander on funding alternatives based on external input and internal analyses. The ultimate goal of this transformation initiative is the application of tools, techniques, training, and technology to reduce the time spent loading targets, collecting data, preparing financial plans, and guiding the work of outside resource advisors. The additional time will be directed toward more sophisticated, performance-based



analysis of base resources using the latest technologies such as the Financial Information Resource SysTem (FIRST), the Commander's Resources Integration System (CRIS), and other systems. The results of an end-to-end review of resource management at the wing/unit level will be enhanced decision support through output-based budgets and a better analysis of similar and dissimilar alternatives resulting in more cost-effective solutions for the wing.

### **Reengineer Acquisition Cost**

**Process.** Consistent with the Secretary's goal of reducing acquisition cycle time (i.e., getting weapons to the warfighter in a more accelerated manner), the importance of improving the accuracy and timeliness of financial management support to systems acquisitions is being addressed. Issues include: (1) the integration of cost and budget considerations early in the planning cycle; (2) realism in cost estimates with emphasis given to



risk considerations that appropriately address schedule, technical, programmatic, and performance risk; (3) the impact of capabilities-based requirements on system trade-off decisions; and (4) workforce training, development, experience levels, and attrition concerns. To address these issues, a multi-phase approach will be used. Phase I will be to reengineer the acquisition cost process at the Product Center/

MAJCOM/Headquarters levels, with emphasis placed on organizational roles and responsibilities in support of Milestone Reviews, annual Program Objective Memorandum (POM)/budget submissions, Analysis of Alternatives (AoAs), and Source Selections. The end state will be a financial management capability that provides enhanced support for acquisition decisions based on analysis that correctly balances warfighting requirements, available resources, and risk considerations.



### **Combat Comptroller Concept.**

Financial Management personnel currently support deployed operations providing contract support, cost tracking, and bill paying. They perform their work during contingencies and war as well as in peacetime. Financial Management responsibilities, tasks, and workload increase during contingencies and war, most noticeably during the initial deployment and bed-down of forces stage. Lessons learned from



prior deployments tend to be the same each time with little progress to fix the process. The goal is to provide world-class, relevant, accurate resource management support and financial services to deployed U.S. warfighters. The goal is a focused plan that leverages new technology, new concepts, doctrine, and lessons learned to regain comptroller wartime focus and preparation—in-theater support should mirror the same superior home station support provided by financial management personnel.

#### **Reengineer Air Force—DFAS**

**Relationship.** The lines of management accountability between the Air Force and the Defense Finance and Accounting Service (DFAS) are often unclear and sometimes unsuitable. The Air Force financial management community is working on behalf of members, vendors, and commanders to fix accounting problems without the necessary resources. The Air Force is the only one of the three

Services that has DFAS record obligations. This initiative will evaluate all hand-offs between AF and DFAS, reevaluate processes, and determine optimal roles for each organization throughout all stages of accounting and disbursing. By organizing better and solving recurring issues, the desired outcome/return on investment would be one where all hand-offs between AF and DFAS, processes, and roles,

through all stages of accounting are optimized.

#### **Financial Management Knowledge Management Concept.**

The Air Force's professional financial managers must deal with information fragmented in many locations. This initiative is to build a comprehensive knowledge management tool for financial management that is accessible through a single source website. A "financial management desk-book" would include a reference library, a keyword search, descriptions of discretionary practices, policy and procedures, an "ask a professor" feature, wisdom and advice, software tools, forms, and website links. By transforming from a manual and "surf the web" system of obtaining knowledge, professionals' jobs will be enriched and they will be encouraged to become strategic partners for commanders and senior managers at all organizational levels.



## Ongoing Evolution of Financial Management Processes

Air Force Financial Management is working with the National Reconnaissance Office, in the wake of the recent reorganization of space-related functions, to develop and implement financial best practices including an integrated Space Cost Estimating capability. Air Force Financial Management is also looking at budget systems to be sure they are part of an overall strategy and structure that promotes improved processes and wise investment of limited resources. Designing a performance-based budget is part of that effort, and actively participating in a Defense Planning Guidance-directed study of the Planning Programming and Budgeting System will examine whether this process, or some alternative to it, best meets the requirement for responsive resourcing and decision-making at the senior levels of the Department.

To leverage scarce dollars, Air Force Financial Management is developing innovative ways to procure weapons systems. The leasing agreement for the Boeing 737 VIP Transport plane is a notable example.

Cost analyses have been successfully completed for more high-visibility programs this year than any other. In particular, analysis helped lead the budget-capped F/A-22 through its contentious and challenging Low Rate Initial Production and Lot 2



decision process. Analysis also guided the Joint Strike Fighter (JSF), the largest and most influential DoD program ever, toward a successful source selection and development decision. The Air Force Cost Analysis Agency provided crucial F/A-22 estimating insight to the JSF Cost Integrated Product Team, which contributed significantly to the program's ability to prepare and defend its life-cycle estimates. As a result, there were no major issues concerning the JSF cost estimate during the source selection and the milestone process. The F/A-22 and JSF are two more examples of the opportunities we had this year to assist decision makers in making the best choices to equip our warfighters.

Finally, Air Force Financial Management directed the most comprehensive and creative analysis of funding requirements for the annual flying hour program for the Air Force. For the first time ever, the analysis included an innovative

methodology to consider the impact of "aging" aircraft on the funding requirements. The model resulted in the identification and correct pricing of this \$6 billion program, critical to Air Force readiness and combat capability.

## Ongoing Evolution of Financial Management Performance Metrics

FY 2002 witnessed the introduction of performance metrics. Metrics provided insights into financial management reform initiatives, under the Transformation rubric, that collectively heralded and documented heightened, more beneficial financial management services for the entire U.S. Air Force. A sample metric is problem disbursements.

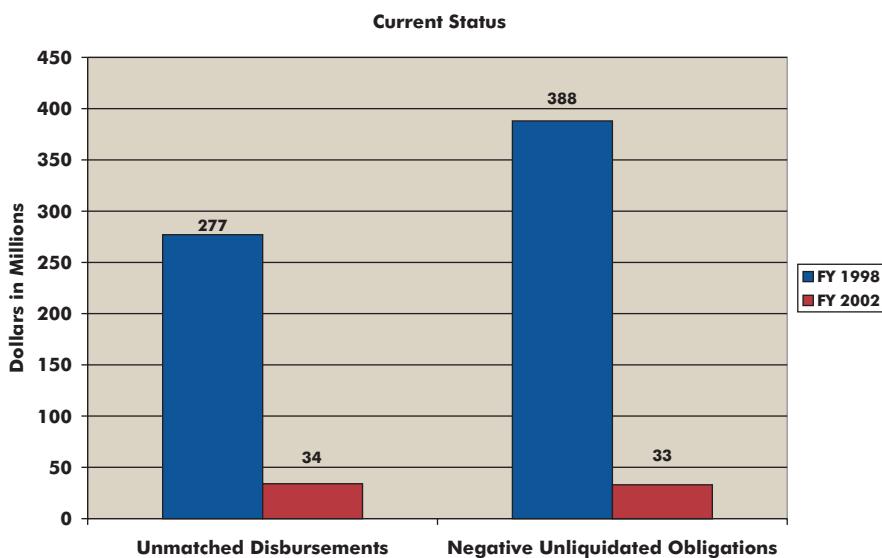
**Air Force Problem Disbursements.** This metric records Air Force problem disbursements resulting from problem accounting transactions. Negative unliquidated obligations

occur when a payment is made from a funding line that does not exist. Unmatched disbursements also result from payments from the wrong source, but there are funds to support the error.

## FY 2003 and Beyond

The transformation of the Air Force, in many respects, parallels the transformation of America. As the Air Force explores new capabilities and concepts of operations to engage threats, America collectively experiences a new and heightened appreciation for the cost of freedom.

The Air Force is up to the challenge. Assessing adversaries' capabilities against its own, the Service is developing Task Forces for a range of mission requirements, from strategic response to homeland security. The Air Force will continue to exploit this nation's technical dominance to elevate advantages against potential adversaries. Among other transformational elements, this involves harnessing the attributes of stealth, pre-



cision, stand-off, space, and information technology.

The Air Force remains at the forefront of DoD transformation. The Service ensures the freedom to operate around the globe, and in the sky and space above, under any circumstances and for whatever mission the nation requires. Maintaining this advantage is absolutely paramount, and represents a constant challenge. In the Air Force flight plan of the future, the United States Air Force will

meet and exceed challenges and tests by relying on the tenets of its resounding success—Readiness, Transformation, and the most indispensable resource—its People. Air Force Financial Management will help lead this transformation by providing world-class financial services that are every bit as sophisticated as the warfighting concepts and systems it supports.



# Working Capital Fund Concept

*The Defense Working Capital Fund (DWCF) is a revolving fund financial structure used to provide necessary goods and services for the armed forces. A revolving fund, including the WCF revolving fund, derives its name from the cyclic nature of the "cash" flow. The income (or financial resources) of organizations financed through DWCF is derived from their level of operations and is available to finance their continuing operations without fiscal year limitation. Organizations financed through DWCF, as business area providers, sell goods or services to "customers" with the intent of recovering the total cost of providing those goods and services. DWCF business area providers use the income from these sales to replace or buy additional inventory or otherwise finance the production of goods and services. The cycle continues for the life of their revolving fund. A business area provider, unlike commercial businesses, is not profit-oriented.<sup>1</sup>*

—Air Force Materiel Command  
"Home" of the Air Force Working Capital Fund

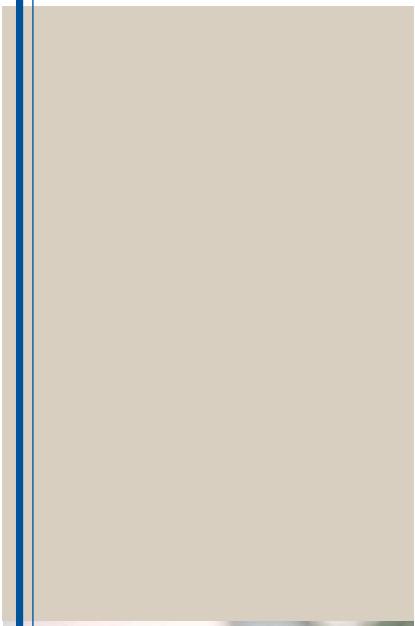
## Air Force Materiel Command Intensifies Focus on the Warfighter

Air Force Materiel Command (AFMC) logistics elements necessarily shifted from in-garrison or expeditionary support to sustained wartime operations as FY 2002 began. AFMC, along with the rest of DoD, stalwartly embraced the formidable task of defending this nation and its interests abroad, conducted in the then-recent shadow of the

September 11 terrorist attacks. Strategically, AFMC invested significant resources in ensuring warfighter support levels were positioned to fully support the Air Force's evolving combat response. These prudent investments in readiness, readily apparent within attained measures of performance outlined in this section, powerfully underscore AFMC's unyielding commitment to the warfighter.

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1. The DWCF Handbook  
(<http://www.dtic.mil/comptroller/icenter/dwcf/dhintro.htm>)



## Transformation Efforts

The terrorist attacks of September 11, 2001, renewed Air Force commitment to continue transformational efforts in finding new approaches to accomplish its vital missions.

Successfully addressing the evolving geopolitical environment is only possible through the harnessing of new and innovative ideas—transformation. Clearly, the Air Force is transforming today to meet the challenges of tomorrow.

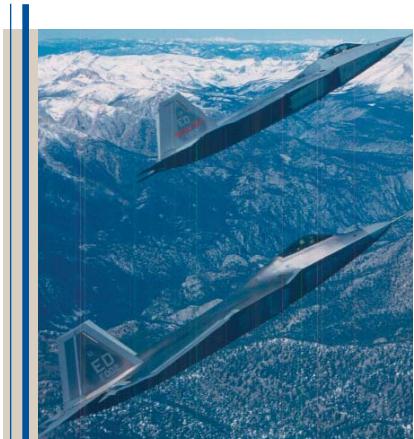
Transformation extends into every aspect of the Air Force—be it warfighting or support capabilities. In FY 2002, AFMC continued its pioneering efforts in transformation, taking significant steps to maximize the Air Force's warfighting capabilities. AFMC transformation is not just about creating new systems, but also about taking current systems and using them in novel, more effective ways. AFMC personnel use innovation to transform the way weapons systems materiel and related support equipment are acquired, repaired, maintained, sustained,



and delivered. Additionally, transformation of selected AFMC business systems is currently being embraced to take advantage of new technologies and processes already proven in commercial industry.

AFMC has also been at the forefront of related transformation efforts. Noteworthy examples include the technique of enterprise management applied to each of the AFMC enterprises, and elsewhere within the Command, the systematic divestiture of those non-value added activities that pull resources away from achieving transformation goals.

Collectively, the ideas and products fostered by AFMC transformation efforts will enhance AFMC and Air Force efficiency, and increase the flow of knowledge across the Service. Air Force Materiel Command will continue to adapt and innovate in order to “push the envelope” of its capabilities.



## OPERATION NOBLE EAGLE/OPERATION ENDURING FREEDOM

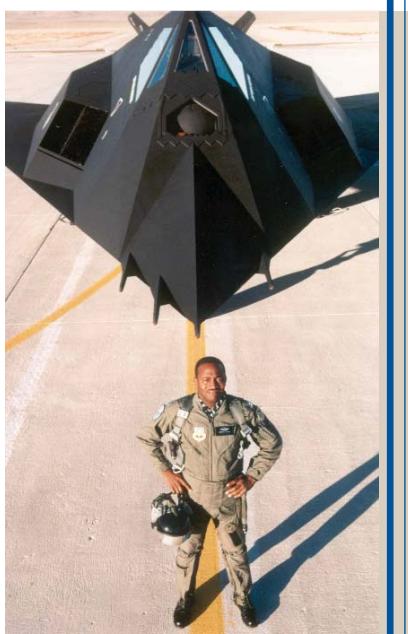
In the aftermath of September 11, 2001, Air Force Working Capital was geared up to support the warfighter. Organic and contract maintenance increased production to meet the increased need for aircraft, engines, and components the air campaign would require.

Contracts and depot support were accelerated to provide the needed parts, and inventory levels were increased to provide immediate support. Correspondingly, the number of aircraft in the depots decreased by 20 percent; aircraft deliveries achieved 86 percent on-time performance; and the quality of aircraft, engines, and components remained high. Inventory backorders have been reduced by 10 percent. Concerted efforts were made to provide maintenance personnel the parts needed, with the stated goal to expedite supply of needed parts to operational units, ready for immediate issue.

## Improvement in Logistics Support to the Warfighter

Logistics support to the warfighter has improved dramatically over the last fiscal year. After nine consecutive years of declining readiness trends, the AF has sustained its second straight year of improvements across the four major readiness indicators. Mission capable rates are at their highest point since FY 1997, while Total Non-Mission Capable for Maintenance rates improved to their best levels in the last four years.

Total Non-Mission Capable for Supply rates improved 18 percent from FY 2000, which represents a significant improvement in supplying critical aircraft parts to the flightline mechanic. Similarly, cannibalization rates posted 24 percent improvement from its FY 1997 high, further illustrating our improved supply posture.



Behind the four major readiness indicators are corollary metrics that provide even more evidence of the major improvements AFMC has seen in parts support. Parts backorders are a third of what we experienced in December 1998. Furthermore, Mission Capable (MICAP) incidents and hours are both significantly down, with MICAP hours down 21 percent since the beginning of this fiscal year. Beginning in FY 2002, AFMC also budgeted and paid for Readiness Spares Package (RSP) kits for both strategic airlift and fighters, improving the deployability and supportability of expeditionary aerospace forces. These examples highlight the improved supply support the field is experiencing, and all these improvements occurred while the Air Force engaged in multiple contingency operations.

Equally telling is the improvement in engines. The total Engine Non-Mission Capable for Supply rate for

AF engines dropped significantly from the FY 1998 rate. This translates into fewer engines sitting on shop floors waiting for parts. Several engines such as the C-5 and the A-10 have seen improvements far beyond those represented by the aggregate rate. The conversion of aircraft, through engine replacement, has also demonstrated Reliability and Maintainability paybacks. The bottom-line: more combat capability and less strain on professional maintainers.

Improving mission capable rates for aircraft and engines is not the only way to enhance combat power; making more aircraft available to the warfighter is also vital to the customer. While programmed depot maintenance and fleet modernization will always be part of our force, AFMC strives to make the process more effective and more efficient to increase the number of aircraft available to fly primary missions. Depot production is above



target, and on-time due date performance is trending upwards. At the same time, defect rates, quality defects, and depot-possessed aircraft are down.

The Air Force Depot Maintenance Activity Group is responsible for maintenance and repair of systems and spare parts with a program value of \$6.7 billion (FY 2002), and the group provides an invaluable

service to the warfighter. Congress, along with the SECAF and CSAF, identifies depot capability as a priority necessary to support readiness and sustainability requirements for contingency scenarios. To maintain a ready and controlled source of depot maintenance, the Air Force published a Depot Strategy and Master Plan and sent it to Congress on August 30, 2002. This strategy

and master plan calls for major transformation in processes, financials, and infrastructure capitalization to ensure that Air Force equipment is safe and ready to operate across the operational spectrum, from training to rapidly deploying and sustaining forces that can decisively defeat any adversary. To support the plan, the Air Force funded an additional \$150 million per year beginning in FY 2004 for depot facilities and equipment modernization. In addition to facility improvements, the AF created a new "Depot Modernization" appropriation line to fund new technology and equipment to modernize the depots. This new line provides the visibility needed to ensure a corporate, enterprise-wide approach to supporting depot capabilities.

The Air Force's logistics readiness indicators provide a snapshot of the gains made by "effects-based resourcing," by enhancing logistics processes and by focusing on the needs of the warfighter. Considerable work remains, but with the proper resources, the path is set for continued success.



# Air Force Working Capital Fund

*All of our achievements—whether in combat or in the laboratory—are made possible by the single greatest competitive advantage we have...the men and women of our Air Force.*

—Dr. James G. Roche  
Secretary of the Air Force

The Air Force Materiel Command (AFMC) accounts for more than 95 percent of Air Force working capital fund (AFWCF) revenue and expense activity (excluding the transportation working capital fund, which is managed by the United States Transportation Command). The AFWCF consists of three functions: Depot Maintenance, Supply Management, and Information Services. These functions, referred to as activity groups, supply their singular goods and services to United States Air Force and DoD customers. Depot Maintenance provides economical and responsive repair, over-haul, and modification of aircraft, missiles, engines, other major end items, and their associated components. Supply Management provides inventory management for spare parts and associated logistics support services to fulfill USAF needs during war and peacetime. Information Services provides maintenance and development of automated information systems for information-related activities of the Air Force, DoD, and certain other Government agencies.

Working capital funds (WCFs) allow the Air Force to accomplish the following:

- ▶ Ensure readiness through reduced support costs, stabilized rates, and customer service
- ▶ Focus management attention on net results, including costs and performance
- ▶ Identify the total cost of providing support products and services
- ▶ Establish strong customer/provider relationships

## Funding Authority

The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), through the Assistant Secretary of the Air Force (Financial Management and Comptroller) (SAF/FM), allocates to activity groups their annual cost authority. Specific capital investment targets are established to support the replacement and modernization of equipment and other capital assets through the budget, obligation, and procurement processes.



## Cash Management

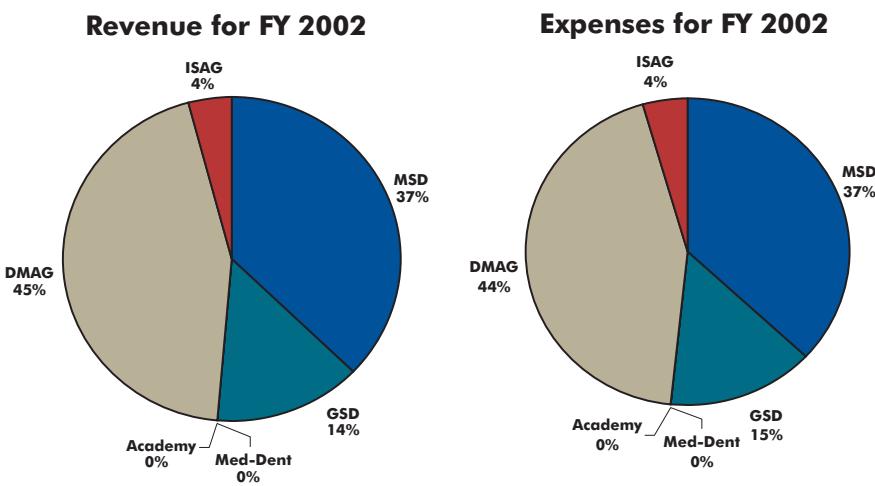
DoD cash management policy recommends maintaining the minimum cash balance necessary to meet both operational requirements and disbursements in support of the capital program. Cash generated from operations is the primary means of maintaining adequate cash levels. The ability to generate cash is dependent on setting rates to recover full costs, including prior-year losses, accurately projecting workloads, and meeting established operational goals.

Effective cash management is directly dependent on the availability of accurate and timely data on cash levels and operational results. Cash levels should maintain at least seven to 10 days of operational costs as well as cash adequate to meet six months of capital disbursements. The recommended cash range for FY 2002, the FY 2002 result, and the FY 2003 goal are shown.

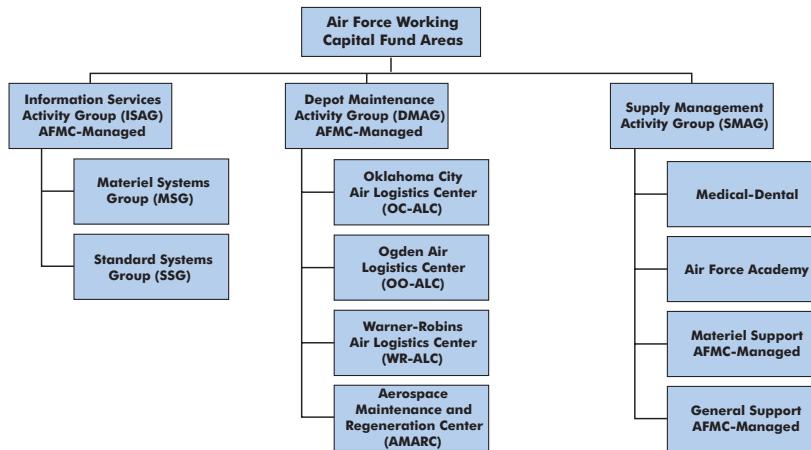
Cash management efforts continue to focus on analyzing data and developing tools to identify changes in cash. Although available cash data from the financial systems is outdated for current needs, accuracy has been improving. AFMC completed a statement of sources and uses of cash and implemented use of the statements to identify areas of cash increases and drains. Work is continuing with regard to identifying and correcting processes that cause cash drains.

| AF Working Capital Fund<br>Cash Performance Measure |               |                  |               |
|---|---------------|------------------|---------------|
| Activity Group                                      | FY 2002 Goal* | FY 2002 Result** | FY 2003 Goal* |
| <b>DMAG</b>   | \$362.7 M     | \$309.5 M        | \$387.6 M     |
| <b>SMAG</b>   | \$(-2.9) M    | \$92.3 M         | \$132.4 M     |
| <b>ISAG</b>   | \$55.1 M      | \$47.4 M         | \$59.6 M      |
| <b>Transportation</b>                               | \$384.1 M     | \$859.9 M        | \$449.4 M     |
| <b>Other</b>  | \$11.0 M      | \$14.1 M         | \$11.0 M      |
| <b>Total</b>  | \$810.0 M     | \$1,323.2 M      | \$1,040.3 M   |

Source: \*FY03PB, \*\*Cash Wksht Rpt



## Air Force Working Capital Fund Organization—Activity Groups and Divisions



## Depot Maintenance Activity Group

The Depot Maintenance Activity Group (DMAG) repairs systems and spare parts that support the warfighter in peacetime and provide sustainment to combat forces in wartime. In peacetime, DMAG enhances readiness by efficiently and economically repairing, overhauling, and modifying aircraft, engines, missiles, components, and software to meet warfighter demands. During wartime or contingencies, the group shifts to surge repair operations and realigns capacity to support the warfighter's immediate needs.

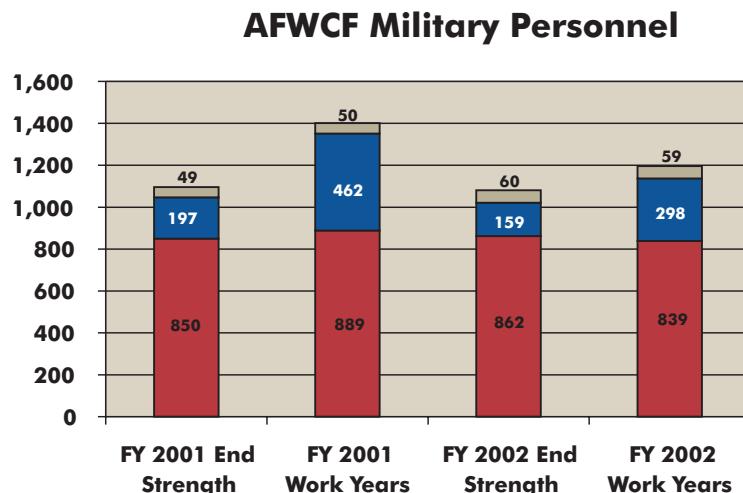
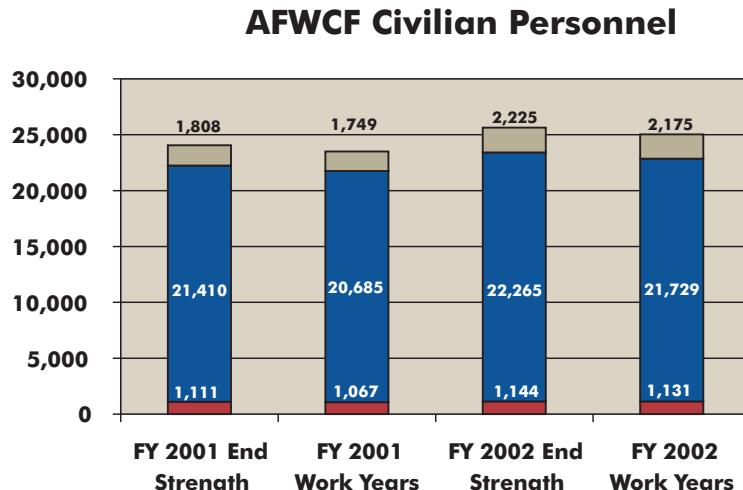
### Mission Statement

Provide the maintenance capability to support peacetime operations or a contingency crisis while maintaining the capability to rapidly support another major theater war. Build a professional maintenance work force to lead and support Expeditionary Aerospace and Joint Forces.

### Customers, Products and Services

DMAG provides major overhaul and repair of systems and spare parts while striving to meet or exceed required standards for quality, timeliness, and cost. Both the Air Force Materiel Command depots and contract operations accomplish these goals.

Depot maintenance supports a variety of customers including the



Supply Management Activity Group, Air Force Major Commands, Air National Guard, Air Force Reserve Command, and other customers. In addition to supporting the warfighter with depot-level repair of weapon systems, DMAG provides storage, reclamation, and regeneration for equipment not currently used by the active forces of all military services. This work is done at the Aerospace Maintenance and

Regeneration Center at Davis-Monthan AFB, Arizona.

The Depot Maintenance Activity Group has two principal objectives. The first objective is to provide organic and contract depot repair capability for fielded and emerging weapon systems, so that warfighters have mission-essential equipment. Secondly, DMAG's intent is to ensure the ability to rapidly respond to warfighter requirements driven by

**Support an Expeditionary Aerospace Force by providing repair systems and spare parts that ensure readiness in peacetime and provide sustainment to combat forces in wartime.**

contingency operations. To accomplish this, short- and long-term strategies must be used. The depot maintenance strategic plan guides the DMAG in having the right workload capacity and capability to meet depot maintenance for: (a) peacetime support, (b) surge requirements, and (c) core requirements.

As the Air Force evolves through current Transformation initiatives, Depot Maintenance will remain a fundamental element of both readiness and sustainability by providing a cost-effective, rapid repair capability. DMAG will continue to provide a core Air Force depot maintenance capability to retain an in-house source of technical competence. Depot Maintenance will seek

new methods for efficient use of resources such as partnering, government-owned/contractor-operated facilities, and contract field teams augmenting in-house operations. The group will continue to invest prudently to find innovative ways to decrease flow days for systems and components; increase parts availability to the repair line; and control material costs through process reviews, adoption of commercial practices, and engineered standards. Several Depot Maintenance Reengineering and Transformation initiatives have been approved. The expected results from these initiatives equate to the following end-states: improved readiness and support to the warfighter, improvement in execution-year financial results, and improved processes.

### Transformation Initiatives

The Depot Maintenance Review Team (DMRT) was created to improve depot maintenance support to the warfighter and to improve depot maintenance financial performance. After many efforts to improve depot maintenance, the AF leadership determined that a strategic, integrated approach was needed. In November 2001, the DMRT became Depot Maintenance Reengineering and Transformation.

More than 300 inhibitors to depot maintenance performance, both operational and financial, were identified and categorized. While these issues spanned a wide range of functional areas, the Focus Areas included:

- **Organizational Structure:** Centralize depot maintenance into a single Directorate in an effort to clarify lines of accountability, responsibility, and authority.
- **Financial Management:** Transition from the existing budget to a more dynamic process, providing management with a tool to efficiently size depot workload by type. Realign contract depot maintenance from Working Capital Fund to appropriated funding and use statistical methods to develop predictive budget models. Eliminate intra-fund inefficiencies/costs while optimizing support through wholesale supply and depot maintenance. Institutionalize WCF Program Objective Memorandum (POM) processes for appropriate corporate action on WCF needs. Exclude Air Force depot maintenance from the quarterly surcharge requirement.
- **Workforce:** Develop a maintenance training organization as a single entity for all depot maintenance training through the senior management level. Streamline the hiring process,



- employ multi-skilling, and become more competitive with private industry in compensation and other benefits.
- **Infrastructure:** Formalize the Depot Infrastructure Planning Process by providing infrastructure investment incentives in Maintenance and Repair (M&R). Educate the depot workforce in Capital Purchase Programs (CPP) and Economic Analysis (EA) processes. Improve preventative maintenance programs and provide flexibility for workload changes.
  - **Information Technology (IT):** Develop an IT Master Plan standardizing data system development/implementation across Depot Maintenance and Supply Maintenance. Develop an IT Solution to capture data transparently and seamlessly. Develop the "Depot X" Initiative, modeled after the Combined Aerospace
- Operations Center Experimental (CAOC-X).
- **Metrics:** Establish a standardized set of warfighter-focused metrics, balanced and related to strategic objectives.
  - **Workload/Production:** Implement standard process improvement (PI) strategies and standardized shop floor metrics relating to the customer shop floor.
  - **Material Support:** Implement actions to improve depot maintenance material support. Examine depot maintenance material requirements issues and relationships with the Defense Logistics Agency (DLA) and the Supply Management Mission Area. These include the variability and unpredictability of requirements, current stock levels, AF policies, and policies effecting the total acquisition cycle.



## Customer Support Performance Measures

Customer Support Performance Measures for DMAG consist primarily of Production Performance Measures, which are used to assess cost, schedule, and quality of the DMAG output. The six measures are designed to achieve accountability at the appropriate depot maintenance level, the Depot Maintenance Manager. They measure compliance with DMAG goals.

| Depot Maintenance<br>Customer Support Performance Measures             |               |                  |                 |
|--|---------------|------------------|-----------------|
| Measure  | FY 2002 Goal* | FY 2002 Result** | FY 2003 Goal*** |
| <b>Organic Production Hours (DPSH)<sup>1</sup></b>                     | 22,257K       | 23,190K          | 22,866K         |
| <b>Aircraft Days Held Index (yr)<sup>2</sup></b>                       | ≤1.0          | 1.1              | ≤1.0            |
| <b>Aircraft Due Date Performance<sup>3</sup></b>                       | ≥90 percent   | 82 Percent       | ≥90 percent     |
| <b>Aircraft Quality Defect Rate (18 mo ave)<sup>4</sup></b>            | 0.22          | 0.22             | Varies by MDS   |
| <b>Engine Quality Defect-Free Percentage<sup>5</sup></b>               | 95 Percent    | 96 Percent       | 95 Percent      |
| <b>Exchangeable Quality Defect Rate (defects per item)<sup>6</sup></b> | 0.03          | 0.02             | 0.03            |

Source: \*FY02 Supply Mgmt Mission Area Ops Plan, \*\*30 Sep 02 Center Production, \*\*\*FY03 Supply Mgmt Mission Area Ops Plan

<sup>1</sup> **Organic Production Hours:** The maintenance hours necessary to produce a product (i.e., aircraft, engines, spares, software, etc.) or to provide a service.

<sup>2</sup> **Aircraft Days Held Index:** The length of time that the depot or depot maintenance contractor possesses aircraft for maintenance or modifications.

<sup>3</sup> **Aircraft Due Date Performance:** The ability of the depot and depot maintenance contractors to produce aircraft according to schedule.

<sup>4</sup> **Aircraft Quality Defect Rate:** The ability of the depot and depot maintenance contractors to produce defect-free aircraft, ready for use by the customer.

<sup>5</sup> **Engine Quality Defect-Free Percentage:** The ability of the depot to produce engines that are defect-free and ready for use by the customer.

<sup>6</sup> **Exchangeable Quality Defect Rate:** The ability of the depot to produce components that are defect-free and ready for use by the customer.

| Depot Maintenance<br>Financial Performance Measures   |               |                  |               |
|---|---------------|------------------|---------------|
| Measure   | FY 2002 Goal* | FY 2002 Result** | FY 2003 Goal* |
| <b>Organic Net Operating Result (NOR)<sup>1</sup></b> | \$194.4 M     | \$237.4 M        | \$0.0         |
| <b>Organic Expense Rate<sup>2</sup></b>               | \$161.63      | \$173.33         | \$175.85      |

Source: \*FY03PB, Jan 02, \*\*Mly Exec Rpt

**<sup>1</sup> Organic Net Operating Result:** The profit or loss from annual operations is based on work performed. Revenue includes amounts earned from stabilized sales rates and reimbursements. The goal of the fund is to break even over the long run.

**<sup>2</sup> Organic Expense Rate:** Estimated cost per hour for work produced including all labor, material, and business operations costs. It provides managers with visibility of cost trends.

## Financial Performance Measures

Financial Performance Indicators assess the financial performance of the DMAG. They are designed to achieve accountability at the appropriate level and measure compliance with DMAG objectives.

The DMAG Financial Performance Indicators for Organic work are Organic Net Operating Result and Organic Expense Rate. We are currently in the process of realigning the Contract DMAG program to

provide a more direct relation between customers and repair contractors.

## Supply Management Activity Group

The Supply Management Activity Group (SMAG) was established to provide inventory management for spare parts and associated logistics support services to fulfill USAF needs. SMAG acquires and repairs inventory items using funds received

from sales. Operating costs are paid by funds received from sales.

## Mission Statement

Provide policy, guidance, and resources to meet Air Force needs for spare parts. Manage approximately two million items, including weapon systems spare parts, medical/dental supplies and equipment, and items used for non-weapon systems applications. Materiel procured from vendors held in inventory is for sale to authorized customers.

## Organization and Responsibilities

SMAG consists of four divisions: the Materiel Support Division (MSD), General Support Division (GSD), Medical/Dental Division, and Air Force Academy Cadet Issue Division. The Air Force Materiel Command manages MSD and GSD. The United States Air Force Headquarters (HQ USAF) manages the Medical/Dental Division and Air Force Academy Cadet Issue Division.



Since the onset of FY 2002, Headquarters Defense Logistics Agency/Defense Energy Service Center assumed management of the Fuels Division.

MSD is responsible for Air Force-managed, depot-level repairable spare parts and consumable spares. The principal products of MSD are serviceable spare parts and assemblies unique to Air Force weapon systems. The sale of repairable parts represents about 90 percent of total sales. The remainder represents sales of non-repairable or consumable items within the MSD. Although most consumable items have been transferred to the Defense Logistics Agency (DLA) for management, items designated as design unstable remain on the AFMC product list.

The Retail Operations of the Air Force Working Capital Fund are composed of the General Support, Medical/Dental, and United States Air Force Academy Divisions. Although each division operates independently, they all purchase large quantities of commodities in order to sell small quantities directly to the ultimate consumer (supporting the warfighter). Large bulk buys allow them to take advantage of economies of scale and achieve significant cost savings. Additionally, each division concentrates its efforts in a specific area of expertise.

***Support an Expeditionary Aerospace Force by providing spare parts in a timely manner. Attain this goal by increasing issue and stockage effectiveness rates, reducing logistic response times, and reducing backorders.***

GSD items support installation maintenance and administrative functions, field and depot maintenance of aircraft, ground and air-borne communication and electronic systems, and other sophisticated systems and equipment. These also include individual clothing items issued to new recruits and organizational clothing items, such as firemen's protective over-garments, air crew helmets, and chemical warfare protective over-garments. GSD supports more than 150 Air Force installations throughout the world.

The Surgeon General of the Air Force is responsible for the overall management of the Medical/Dental Division. This peacetime operating authority provides the effective support necessary to maintain established norms in the health care of USAF active military, retirees, and their dependents. The war reserve materiel (WRM) requirement of this division is to provide medical supplies and equipment vital to support forces in combat and contingency operations.

The Air Force Academy Cadet Issue Division finances the purchase of uniforms, uniform accessories, and computers for sale to cadets. The division's customer base includes more than 4,000 cadets who receive distinctive uniforms procured from a number of domestic manufacturing contractors.



**Provide and deliver repairable and consumable items (right product—right place—right time—right price).**

## Customers, Products, and Services

In addition to the management of various inventories, SMAG provides a wide range of logistics support services, including requirements forecasting, item introduction, cataloging, provisioning, procurement, repair, technical support, data management, item disposal, distribution management, and transportation.

SMAG provides support to a variety of customers. During FY 2002, the customer base consisted primarily of MAJCOMs, Depot

Maintenance and Contractors, and the Air National Guard and Air Force Reserve.

The supply business also provides initial provisioning support to the Air Force Acquisition Executive.

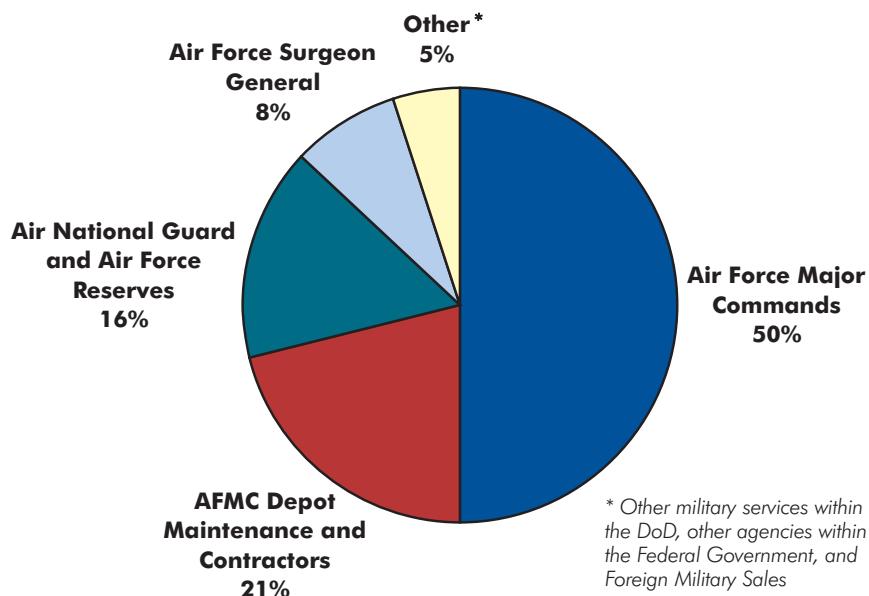
### Transformation Initiatives

The Air Force is in the process of implementing a major redesign of the spares supply process through a set of initiatives designed to improve support to the warfighter. These initiatives, known as the Spares Campaign, promise a fundamental

reshaping of the internal management processes and data systems used on a daily basis to buy, repair, and distribute the thousands of different items needed to maintain weapon systems in a mission-capable (MC) status. Eight initiatives provide for a full spares process-improvement campaign:

- ▶ Restructure defense logistics requirements by setting stable prices and allocating costs to the responsible commands.
- ▶ Improve spares budgeting by establishing a single consolidated budgeting process for spares and consumable items, thereby meeting all spares requirements.
- ▶ Improve financial management by tracking the execution of weapon-system support against approved requirements and budget. Simply put, determine whether the Air Force is getting a MC rate equivalent to the amount it is spending.
- ▶ Improve item demand and repair workload forecasting. This initiative calls for improved methods for calculating the type and timeframe of maintenance needs for the future; that is, commercial technologies like advanced planning and scheduling systems.
- ▶ Establish a virtual single inventory control point to centrally prioritize spares and funds

## SMAG Customers



allocation, passing the execution phase down to the air logistics centers.

- Align supply chain management to focus more on weapon systems and MC rate goals.
- Standardize and expand the role of regional supply squadrons to support expeditionary operations.
- Adopt improved purchasing and supply management practices, thereby reducing purchasing costs and improving product quality and delivery.



### Customer Support Performance Measures

SMAG evaluates customer support performance of Air Force-managed items based on five indicators—Issue Effectiveness, Stockage Effectiveness, Logistics Response Time, Backorder Reduction, and

MICAP. These indicators provide feedback to allow managers to assess quality of spares support provided and plan corrective action when needed. The General Support Division reports these indicators at the base level, not at the aggregate level.

| Supply Management<br>Customer Support Performance Measures |                 |                  |                 |
|--|-----------------|------------------|-----------------|
| Measure  | FY 2002 Goal*   | FY 2002 Result** | FY 2003 Goal*** |
| <b>Issue Effectiveness (IE)<sup>1</sup></b>                | 63 percent      | 63.7 percent     | 65.1 percent    |
| <b>Stockage Effectiveness (SE)<sup>2</sup></b>             | 71 percent      | 72.9 percent     | 74.4 percent    |
| <b>Logistics Response Time (LRT)<sup>3</sup></b>           | 36 days         | 38.1 days        | 35.3 days       |
| <b>Backorder Reduction<sup>4</sup></b>                     | 218,500 units   | 219,551 units    | 177,281 units   |
| <b>MICAP<sup>5</sup></b>                                   | 3,935,800 hours | 3,356,396 hours  | 3,139,459 hours |

Source: \*FY02 Supply Mgmt Mission Area Ops Plan, \*\*Mly Exec Rpt (Mly Avg FY02), \*\*\*FY03 Supply Mgmt Mission Area Ops Plan

**<sup>1</sup>Issue Effectiveness (IE):** IE reflects the percentage of time base supply satisfies base demands with stock off the shelf, irrespective of authorized stock levels. The IE supports the AFMC Expeditionary Combat Support Enabling Task to equip and sustain the warfighter with reach-back capability to the latest available technology and resources.

**<sup>2</sup>Stockage Effectiveness (SE):** SE represents the percentage of the time base supply satisfies base demands with stock off the shelf, for items with authorized stock levels only.

**<sup>3</sup>Logistics Response Time (LRT):** LRT measures the average time taken to satisfy customer (base supply or depot retail) requisitions for those Air Force-managed items that were not immediately available.

**<sup>4</sup>Backorder Reduction:** A backorder is a demand placed on the Air Force supply system that cannot be immediately satisfied from existing inventory. SMAG strives to reduce backorders by having parts on the shelf for immediate issue, increasing warfighter readiness.

**<sup>5</sup>Mission Capability (MICAP):** A MICAP backorder is a demand placed on the supply system that cannot be immediately satisfied from existing inventory and has been designated by the customer as affecting mission capability. MICAP hours are accrued until the order is filled. SMAG strives to reduce MICAP hours by having parts on the shelf for immediate issue; thus, increasing operational readiness.



## Financial Performance Measures

SMAG measures financial performance based on four indicators—Revenue, Expenses, Net Operating Result, and Unit Cost Target. These indicators allow effective and efficient utilization of funding to support customer needs, while providing vital information needed for accurate budget forecasts.

ing vital information needed for accurate budget forecasts.

## Information Services Activity Group

The Information Services Activity Group (ISAG) was established to develop and maintain automated information systems for specific Air Force, DoD, and other Government agencies. Two Air Force entities act as one Central Design Activity (CDA) under the command of the Air Force Materiel Command, Electronic Systems Center (ESC), at Hanscom AFB, Massachusetts.

The two entities are the Materiel Systems Group (MSG), located at Wright-Patterson AFB, Ohio, and the Standard Systems Group (SSG), located at Maxwell AFB-Gunter Annex, Alabama.

## Mission Statement

Develop, acquire, integrate, implement, protect, and sustain combat support information systems for the United States Air Force and Department of Defense customers.

## Customers, Products, and Services

ISAG provides, through the CDA, information products and services via two business lines—the information technology solutions line and the Commercial Information Technology Product Area Directorate (CITPAD) line.

The information technology solutions business line develops and sustains automated information systems in two target markets: (1) AFMC-level supply management and depot maintenance information systems, and (2) Air Force-wide, standardized support systems. This

| Supply Management<br>Financial Performance Measures |              |                |              |
|---|--------------|----------------|--------------|
| Measure   | FY 2002 Goal | FY 2002 Result | FY 2003 Goal |
| <b>Revenue<sup>1</sup></b>                          | \$8,471.0 M  | \$8,770.0 M    | \$9,576.8 M  |
| <b>Expenses<sup>2</sup></b>                         | \$8,380.0 M  | \$8,617.2 M    | \$9,507.6 M  |
| <b>Net Operating Result (NOR)<sup>3</sup></b>       | \$91.0 M     | \$152.8 M      | \$69.2 M     |
| <b>Unit Cost Target (UCT)<sup>4</sup></b>           | 0.989        | 0.983          | 0.993        |

<sup>1</sup>**Revenue:** Revenues are amounts earned as a result of normal operations and usually result from sale of, or reimbursements for, goods and services provided to DoD activities, other federal government agencies, and the public.

<sup>2</sup>**Expenses:** Expenses are the use of resources during an accounting period in carrying out DoD's mission. They occur from rendering services, delivering or producing goods, or carrying out other mission-related activities and relate to normal operating activities.

<sup>3</sup>**Net Operating Result (NOR):** The NOR is the difference between revenue and expenses, i.e., a bottom-line profit and loss indicator. The NOR objective of an activity group is to break even over a two-year budget cycle. Setting rates that effectively offset the prior-year net profit or loss accomplishes this.

<sup>4</sup>**Unit Cost Target (UCT):** UCT is a limitation imposed by the Office of the Under Secretary of Defense (Comptroller) on the annual operating budget (AOB), restricting obligations to a percentage of gross sales. The AOB is the funding document providing the authority to incur costs. The UCT is determined by dividing costs by sales. Another description is the ratio of obligations to gross sales. A definition for costs is an obligation (excluding initial and capital expenses) and credit returns.

includes a 24-hour, seven-day help desk for customers to call for hardware and software support. The CDA provides their service upon entering into service-level agreements (SLAs) with known customers.

The SLAs specify how many direct billable hours of service per year will be sold to the customer and at what cost per billable hour.

The CITPAD business line provides computer hardware, software, peripheral equipment and related services to the Department of the Air Force, other agencies including DoD, and private parties (as authorized by law) through their web-based "Virtual Superstore."

Thousands of customers across the Air Force and DoD enjoy one-stop shopping from the online catalog of computer and computer-related products and services. For providing this service, the CDA collects a small surcharge on equipment and services when a customer places an order.

### **Transformation Initiatives**

Transformation's foundation of people, processes, and technology will rely heavily on the AFMC's Information Services expertise. Having a supporting role in development and deployment of the AFMC Portal, ISAG is leveraging cutting edge technology to ensure that the transition of "data into knowledge for Air Force decision makers" is tomorrow's reality.

*Air Force professionals providing the world's most respected combat support information systems, transforming data into knowledge for Air Force decision makers.*



### **Customer Support Performance Measures**

ISAG measures the quality of support to its consumer base using three performance indicators—Software Releases, Priority 1 Deficiency Reports, and Priority 2 Deficiency Reports. Critical to the ISAG customer is the timeliness of software releases required to either fix deficiency reports or to make enhancements to the software. In addition, ISAG customers demand timely resolution of their software problems or discrepancies.

### **Financial Performance Measures**

ISAG measures financial performance using three indicators—Revenue, Cost of Operations, and Net Operating Result.



| Information Services<br>Customer Support Performance Measures |               |                  |               |
|---|---------------|------------------|---------------|
| Measure   | FY 2002 Goal* | FY 2002 Result** | FY 2003 Goal* |
| <b>Software Releases<sup>1</sup></b>                          | 95 percent    | 98 percent       | 95 percent    |
| <b>Priority 1 Deficiency Reports<sup>2</sup></b>              | 66 percent    | 88 percent       | 66 percent    |
| <b>Priority 2 Deficiency Reports<sup>3</sup></b>              | 75 percent    | 82 percent       | 75 percent    |

Source: \*CDA Internal Goal/Metric, \*\*Mly Exec Rpt

<sup>1</sup> **Software Releases:** The percentage of software delivered on time.

<sup>2</sup> **Priority 1 Deficiency Reports:** Percentage of resolved reported priority 1 software deficiencies within 48 hours. Priority 1 software deficiencies are those which, if not resolved, will prevent the accomplishment of an essential mission capability.

<sup>3</sup> **Priority 2 Deficiency Reports:** Percentage of resolved reported priority 2 software deficiencies within 45 days. Priority 2 software deficiencies are those which, if not resolved, will result in technical, cost, and schedule risk to the project or to the lifecycle support of the system, and no workaround is known.

| Information Services<br>Financial Performance Measures |               |                  |               |
|--|---------------|------------------|---------------|
| Measure  | FY 2002 Goal* | FY 2002 Result** | FY 2003 Goal* |
| <b>Revenue<sup>1</sup></b>                             | \$600.5 M     | \$629.5 M        | \$603.5 M     |
| <b>Cost of Operations<sup>2</sup></b>                  | \$604.0 M     | \$632.5 M        | \$595.1 M     |
| <b>Net Operating Result (NOR)<sup>3</sup></b>          | (\$3.5 M)     | (\$3.0 M)        | \$8.4 M       |

Source: \*FY03PB, \*\*Mly Exec Rpt

<sup>1</sup> **Revenue:** Revenue is earned through the sale of direct billable labor hours at the ISAG composite rate, direct reimbursements for pass-through contract efforts and extraordinary expenses (e.g., mission-unique travel, equipment, and supplies), and the collection of CITPAD surcharges.

<sup>2</sup> **Cost of Operations:** Cost of operations (expenses) measures the resources consumed in filling customer orders. These costs include labor expenses, both direct and overhead.

<sup>3</sup> **Net Operating Result (NOR):** The NOR is the difference between revenue and expenses, i.e., a bottom-line profit and loss indicator. The NOR objective of an activity group is to break even over a two-year budget cycle. Setting rates that effectively offset the prior-year net profit or loss accomplishes this.



# **United States Air Force Fiscal Year 2002 Annual Financial Statements**

## **Financial Statements**



# Limitations of the Financial Statements

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of the Title 31, United States Code, Section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

To the extent possible, the financial statements have been prepared in accordance with federal accounting standards. At times, the Department is unable to implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address these limitations. There are other instances when the Department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the Department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

The Federal Accounting Standards Advisory Board (FASAB) amended the Statement of Federal Financial Accounting Standard No. 6 to require the capitalization and depreciation of military equipment (formerly known as National Defense Property, Plant and Equipment) for fiscal years (FY) 2003 and beyond, and encouraged early implementation. Accordingly, the Department began the process of developing and reporting values for these assets in notes to the Balance Sheet, beginning in FY 2002.

# General Funds

## Principal Statements



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## Consolidated Balance Sheet—General Funds

As of September 30, 2002 and 2001 (\$ in Thousands)

|   | <b>2002<br/>Consolidated</b> | <b>2001<br/>Restated</b>   | <b>2001<br/>Consolidated</b> |
|---|------------------------------|----------------------------|------------------------------|
| <b>ASSETS (Note 2)</b>  |                              |                            |                              |
| Intragovernmental:  |                              |                            |                              |
| Fund Balance with Treasury (Note 3)   | 47,942,750                   | 44,259,788                 | 44,259,788                   |
| Investments (Note 4)  | 708                          | 1,088                      | 1,088                        |
| Accounts Receivable (Note 5)  | 443,154                      | 394,513                    | 394,513                      |
| Other Assets (Note 6)   | 4,989                        | 351,706                    | 351,706                      |
| Total Intragovernmental Assets  | <u>\$48,391,601</u>          | <u>\$45,007,095</u>        | <u>\$45,007,095</u>          |
| Cash and Other Monetary Assets (Note 7)   | 140,645                      | 107,530                    | 486,225                      |
| Accounts Receivable (Note 5)  | 1,017,910                    | 561,769                    | 561,769                      |
| Inventory and Related Property (Note 9)   | 28,817,564                   | 25,740,625                 | 57,610,355                   |
| General Property, Plant and Equipment (Note 10)                                   | 24,247,152                   | 20,444,148                 | 20,444,148                   |
| Other Assets (Note 6)   | 7,535,914                    | 5,509,604                  | 5,509,604                    |
| <b>TOTAL ASSETS</b>   | <u><b>\$110,150,786</b></u>  | <u><b>\$97,370,771</b></u> | <u><b>\$129,619,196</b></u>  |
| <b>LIABILITIES (Note 11)</b>  |                              |                            |                              |
| Intragovernmental:  |                              |                            |                              |
| Accounts Payable (Note 12)  | 1,124,733                    | 740,585                    | 740,585                      |
| Debt (Note 13)  | 134                          | 108                        | 108                          |
| Other Liabilities (Note 15 & Note 16)   | 2,179,087                    | 1,878,473                  | 2,257,168                    |
| Total Intragovernmental Liabilities   | <u>\$3,303,954</u>           | <u>\$2,619,166</u>         | <u>\$2,997,861</u>           |
| Accounts Payable (Note 12)  | 6,206,967                    | 4,180,417                  | 4,180,417                    |
| Military Retirement Benefits and Other Employment-Actuarial Liabilities (Note 17) | 1,211,045                    | 1,269,811                  | 1,269,811                    |
| Environmental Liabilities (Note 14)   | 8,454,564                    | 7,312,942                  | 7,312,942                    |
| Other Liabilities (Note 15 and Note 16)   | 3,987,188                    | 4,118,979                  | 4,118,979                    |
| <b>TOTAL LIABILITIES</b>  | <u><b>\$23,163,718</b></u>   | <u><b>\$19,501,315</b></u> | <u><b>\$19,880,010</b></u>   |
| <b>NET POSITION</b>   |                              |                            |                              |
| Unexpended Appropriations (Note 18)   | 39,543,850                   | 39,006,789                 | 39,006,789                   |
| Cumulative Results of Operations  | 47,443,218                   | 38,862,667                 | 70,732,397                   |
| <b>TOTAL NET POSITION</b>   | <u><b>\$86,987,068</b></u>   | <u><b>\$77,869,456</b></u> | <u><b>\$109,739,186</b></u>  |
| <b>TOTAL LIABILITIES AND NET POSITION</b>   | <u><b>\$110,150,786</b></u>  | <u><b>\$97,370,771</b></u> | <u><b>\$129,619,196</b></u>  |

The accompanying notes are an integral part of the financial statements.

## Consolidated Statement of Net Cost—General Funds

For the years ended September 30, 2002 and 2001 (\$ in thousands)

|  | <b>2002<br/>Consolidated</b> | <b>2001<br/>Restated</b>   | <b>2001<br/>Consolidated</b> |
|--|------------------------------|----------------------------|------------------------------|
| <b>PROGRAMS COST</b>                     |                              |                            |                              |
| Intragovernmental Gross Costs            | 21,820,712                   | 18,672,472                 | 18,672,472                   |
| (Less: Intragovernmental Earned Revenue) | <u>-2,327,324</u>            | <u>-2,211,035</u>          | <u>-2,211,035</u>            |
| Intragovernmental Net Costs              | <u>\$19,493,388</u>          | <u>\$16,461,437</u>        | <u>\$16,461,437</u>          |
| Gross Costs With the Public              | 72,927,138                   | 69,208,409                 | 73,807,726                   |
| (Less: Earned Revenue From the Public)   | <u>-680,711</u>              | <u>-594,928</u>            | <u>-594,928</u>              |
| Net Costs With the Public                | <u>\$72,246,427</u>          | <u>\$68,613,481</u>        | <u>\$73,212,798</u>          |
| <b>NET COST OF OPERATIONS</b>            | <b><u>\$91,739,815</u></b>   | <b><u>\$85,074,918</u></b> | <b><u>\$89,674,235</u></b>   |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 19.

## Consolidated Statement of Changes in Net Position—General Funds

For the years ended September 30, 2002 and 2001 (\$ in thousands)

|   | <b>2002<br/>Cumulative<br/>Results of<br/>Operations</b> | <b>2002<br/>Unexpended<br/>Appropriations</b> | <b>2001<br/>Cumulative<br/>Results of<br/>Operations<br/>Restated</b> | <b>2001<br/>Cumulative<br/>Results of<br/>Operations</b> | <b>2001<br/>Unexpended<br/>Appropriations</b> |
|---|--|---|---|--|---|
| <b>BEGINNING BALANCES</b>                       | <b>70,732,397</b>  | <b>39,006,789</b>                             | <b>31,980,779</b>   | <b>31,980,779</b>  | <b>35,240,415</b>                             |
| Prior Period Adjustments (+/-)                  | -31,869,730  | 0   | 2,536,283   | 39,005,325   | 0   |
| <b>BEGINNING BALANCES, ADJUSTED</b>             | <b>\$38,862,667</b>                                      | <b>\$39,006,789</b>                           | <b>\$34,517,062</b>   | <b>\$70,986,104</b>                                      | <b>\$35,240,415</b>                           |
| <b>BUDGETARY FINANCING SOURCES</b>              |  |   |   |  |   |
| Appropriations received                         | 0  | 96,952,072                                    | 0   | 0  | 3,766,374                                     |
| Appropriations transferred-in/out (+/-)         | 0  | 5,084,803                                     | 0   | 0  | 0   |
| Other adjustments (rescissions, etc) (+/-)      | 0  | -2,062,406                                    | 0   | 0  | 0   |
| Appropriations used                             | 99,437,408   | -99,437,408                                   | 86,135,105  | 86,135,105   | 0   |
| Donations and forfeitures of cash/equivalents   | 12,681   | 0   | 5,872   | 5,872  | 0   |
| Other budgetary financing sources (+/-)         | 246,473  | 0   | 2,236,422   | 2,236,422  | 0   |
| <b>OTHER FINANCING SOURCES</b>                  |  |   |   |  |   |
| Transfers-in/out without reimbursement (+/-)    | 26,728   | 0   | 456,260   | 456,260  | 0   |
| Imputed financing from costs absorbed by others | 597,076  | 0   | 586,864   | 586,864  | 0   |
| <b>TOTAL FINANCING SOURCES</b>                  | <b>\$100,320,366</b>                                     | <b>\$537,061</b>                              | <b>\$89,420,523</b>   | <b>\$89,420,523</b>                                      | <b>\$3,766,374</b>                            |
| <b>NET COST OF OPERATIONS (+/-)</b>             | <b>\$91,739,815</b>                                      | <b>\$0</b>                                    | <b>\$85,074,918</b>   | <b>\$89,674,235</b>                                      | <b>\$0</b>                                    |
| <b>ENDING BALANCES</b>                          | <b>\$47,443,218</b>                                      | <b>\$39,543,849</b>                           | <b>\$38,862,667</b>   | <b>\$70,732,392</b>                                      | <b>\$39,006,789</b>                           |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 20.

## Combined Statement of Budgetary Resources—General Funds

For the years ended September 30, 2002 and 2001 (\$ in thousands)

|   | <b>Budgetary<br/>Financing<br/>Accounts<br/>2002</b> | <b>Non-<br/>Budgetary<br/>Financing<br/>Accounts<br/>2002</b> | <b>Budgetary<br/>Financing<br/>Accounts<br/>2001</b> | <b>Non-<br/>Budgetary<br/>Financing<br/>Accounts<br/>2001</b> |
|---|--|---|--|---|
| <b>BUDGETARY RESOURCES</b>                      |  |   |  |   |
| Budget Authority:                               |  |   |  |   |
| Appropriations received                         | \$96,329,855   | \$0   | \$87,803,883   | \$0   |
| Net transfers (+/-)                             | \$4,954,597  | \$0   | \$4,913,418  | \$0   |
| Unobligated balance:                            |  |   |  |   |
| Beginning of period                             | \$7,203,289  | \$0   | \$7,105,053  | \$0   |
| Net transfers, actual (+/-)                     | \$130,206  | \$0   | -\$2,130,103   | \$0   |
| Spending authority from offsetting collections: |  |   |  |   |
| Earned  |  |   |  |   |
| Collected                                       | 6,551,584  | 0   | 4,875,191  | 0   |
| Receivable from Federal sources                 | 274,507  | 0   | 312,728  | 0   |
| Change in unfilled customer orders              |  |   |  |   |
| Advance received                                | 106,478  | 0   | -41,657  | 0   |
| Without advance from Federal sources            | -1,182   | 0   | 64,971   | 0   |
| Subtotal  | <u>\$6,931,387</u>                                   | <u>\$0</u>  | <u>\$5,211,233</u>                                   | <u>\$0</u>  |
| Recoveries of prior year obligations            | 1,051,593  | 0   | 1,272,122  | 0   |
| Permanently not available                       | -2,062,413   | 0   | -1,996,394   | 0   |
| <b>TOTAL BUDGETARY RESOURCES</b>                | <b><u>\$114,538,514</u></b>                          | <b><u>\$0</u></b>   | <b><u>\$102,179,212</u></b>                          | <b><u>\$0</u></b>   |
| <b>STATUS OF BUDGETARY RESOURCES</b>            |  |   |  |   |
| Obligations incurred:                           |  |   |  |   |
| Direct  | 100,622,101  | 0   | 89,602,365   | 0   |
| Reimbursable                                    | 7,849,904  | 0   | 5,373,560  | 0   |
| Subtotal  | <u>108,472,005</u>                                   | <u>0</u>  | <u>94,975,925</u>                                    | <u>0</u>  |
| Unobligated balance:                            |  |   |  |   |
| Apportioned                                     | 5,268,178  | 0   | 6,367,908  | 0   |
| Exempt from apportionment                       | 4,607  | 0   | 2,494  | 0   |
| Other available                                 | -1   | 0   | 1  | 0   |
| Unobligated Balances Not Available              | 793,725  | 0   | 832,884  | 0   |
| <b>TOTAL STATUS OF BUDGETARY RESOURCES</b>      | <b><u>\$114,538,514</u></b>                          | <b><u>\$0</u></b>   | <b><u>\$102,179,212</u></b>                          | <b><u>\$0</u></b>   |
| <b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>   |  |   |  |   |
| Obligated Balance, Net – beginning of period    | 37,049,171   | 0   | 33,410,761   | 0   |
| Obligated Balance, Net – end of period:         |  |   |  |   |
| Accounts receivable                             | -1,481,965   | 0   | -1,207,458   | 0   |
| Unfilled customer order from Federal sources    | -465,207   | 0   | -466,389   | 0   |
| Undelivered orders                              | 34,030,703   | 0   | 32,011,469   | 0   |
| Accounts payable                                | 9,738,663  | 0   | 6,711,552  | 0   |
| Outlays:  |  |   |  |   |
| Disbursements                                   | 102,374,064  | 0   | 89,687,692   | 0   |
| Collections                                     | -6,658,063   | 0   | -4,833,534   | 0   |
| Subtotal  | <u>95,716,001</u>                                    | <u>0</u>  | <u>84,854,158</u>                                    | <u>0</u>  |
| Less: Offsetting receipts                       | -121,154   | 0   | 0  | 0   |
| <b>NET OUTLAYS</b>                              | <b><u>\$95,594,847</u></b>                           | <b><u>\$0</u></b>   | <b><u>\$84,854,158</u></b>                           | <b><u>\$0</u></b>   |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 21.

## Combined Statement of Financing—General Funds

For the years ended September 30, 2002 and 2001 (\$ in thousands)

|  | 2002<br>Combined           | 2001<br>Restated           | 2001<br>Combined           |
|--|----------------------------|----------------------------|----------------------------|
| <b>RESOURCES USED TO FINANCE ACTIVITIES</b>  |                            |                            |                            |
| Budgetary Resources Obligated  |                            |                            |                            |
| Obligations incurred   | 108,472,005                | 94,975,926                 | 94,975,926                 |
| Less: Spending authority from offsetting collections and recoveries (-)  | -7,982,980                 | -6,483,355                 | -6,483,355                 |
| Obligations net of offsetting collections and recoveries   | <u>100,489,025</u>         | <u>88,492,571</u>          | <u>88,492,571</u>          |
| Less: Offsetting receipts (-)  | -121,154                   | 0                          | 0                          |
| Net obligations  | <u>100,367,871</u>         | <u>88,492,571</u>          | <u>88,492,571</u>          |
| Other Resources  |                            |                            |                            |
| Transfers in/out without reimbursement (+/-)   | 26,727                     | -17,417                    | -17,417                    |
| Imputed financing from costs absorbed by others  | 597,076                    | 586,864                    | 586,864                    |
| Net other resources used to finance activities   | <u>623,803</u>             | <u>566,716</u>             | <u>566,716</u>             |
| <b>TOTAL RESOURCES USED TO FINANCE ACTIVITIES</b>  | <b>\$100,991,674</b>       | <b>\$89,059,287</b>        | <b>\$89,059,287</b>        |
| <b>RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS</b>  |                            |                            |                            |
| Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided              |                            |                            |                            |
| Undelivered Orders (-)   | -2,222,784                 | -2,402,847                 | -2,402,847                 |
| Unfilled Customer Orders   | 105,295                    | 23,314                     | 23,314                     |
| Resources that fund expenses recognized in prior periods   | -651,941                   | 574,535                    | 574,535                    |
| Resources that Finance the Acquisition of Assets   | -10,859,967                | -9,168,868                 | -4,569,551                 |
| Total Resources Used to Finance Items Not Part of the Net Cost of Operations                                       | <u>-13,629,397</u>         | <u>-10,973,866</u>         | <u>-6,374,549</u>          |
| <b>TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS</b>  | <b><u>\$87,362,277</u></b> | <b><u>\$78,085,421</u></b> | <b><u>\$82,684,738</u></b> |
| <b>COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:</b> |                            |                            |                            |
| <b>COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS</b>  |                            |                            |                            |
| Increase in annual leave liability   | -71,316                    | 0                          | 0                          |
| Increase in environmental and disposal liability   | 1,117,408                  | 0                          | 0                          |
| Other (+/-)  | <u>73,202</u>              | <u>467,148</u>             | <u>467,148</u>             |
| Total Components Net Cost of Operations that Will Require or Generate Resources in Future Periods                  | <u>1,119,294</u>           | <u>467,148</u>             | <u>467,148</u>             |
| <b>COMPONENTS NOT REQUIRING OR GENERATING RESOURCES</b>  |                            |                            |                            |
| Depreciation and amortization  | 1,795,095                  | 2,895,300                  | 2,895,300                  |
| Revaluation of assets or liabilities (+/-)   | 3,715,480                  | -15,771                    | -15,771                    |
| Other (+/-)  | -2,252,331                 | 3,642,820                  | 3,642,820                  |
| Total Components Net Cost of Operations Will Not Require or Generate Resources                                     | <u>3,258,244</u>           | <u>6,522,349</u>           | <u>6,522,349</u>           |
| <b>TOTAL COMPONENTS NET COST OF OPERATIONS THAT WILL REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD</b>           | <b><u>\$4,377,538</u></b>  | <b><u>\$6,989,497</u></b>  | <b><u>\$6,989,497</u></b>  |
| <b>NET COST OF OPERATIONS</b>  | <b><u>\$91,739,815</u></b> | <b><u>\$85,074,918</u></b> | <b><u>\$89,674,235</u></b> |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 22.

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# General Funds

## Footnotes to the Principal Statements

### Note 1. Significant Accounting Policies

#### 1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of the Air Force as required by the "Chief Financial Officers (CFO) Act of 1990," expanded by the "Government Management Reform Act (GMRA) of 1994" and other appropriate legislation. The financial statements have been prepared from the books and records of the Air Force in accordance with "Department of Defense Financial Management Regulation (DoDFMR)," Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements," and to the extent possible, Federal Generally Accepted Accounting Principles (GAAP). The accompanying financial statements account for all resources for which the Air Force is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. The Air Force's financial statements are in addition to the financial reports also prepared by the Air Force pursuant to OMB directives that are used to monitor and control the Air Force's use of budgetary resources.

The Air Force is unable to implement fully all elements of Federal GAAP and the OMB Bulletin No. 01-09 due to limitations of its financial management processes and systems, including non-financial feeder systems and processes. Reported values and information for the Air Force's major asset and liability categories are derived largely from non-financial feeder systems, such as inventory systems and logistic systems. These were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, the Air Force currently cannot implement every aspect of GAAP and the OMB Bulletin No. 01-09. The Air Force continues to implement process and system improvements addressing the limitation of its financial and non-financial feeder systems.

There are instances where the Air Force has reviewed the intent of the accounting standard and applied it in a manner consistent with the intent of the standard, but auditors interpret the standard differently. Financial statement elements impacted include payments under firm fixed price contracts, operating materials and supplies (OM&S) and disposal liabilities.

A more detailed explanation of these financial statement elements is provided in the applicable footnote.

#### 1.B. Mission of the Reporting Entity

The United States Air Force was created on September 18, 1947, by the National Security Act of 1947. The National Security Act Amendments of 1949 established the Department of Defense (DoD) and made the Air Force a department

within DoD. The overall mission of the Air Force is to defend the United States through control and exploitation of air and space.

The accounts used to prepare the statements are classified as entity/nonentity. Entity accounts consist of resources the agency has authority to decide how to use or is legally obligated to use to meet entity obligations. Nonentity accounts are assets held by an entity but are not available for use in operations.

The Air Force incorporates into the accounting systems internal controls, reconciliations, management by exception reports, and other management control information.

When possible, the financial statements are presented on the accrual basis of accounting as required by federal accounting standards.

Following is a list of Air Force account numbers and titles (all accounts are entity accounts unless otherwise noted):

| Air Force Account Number | Title   |
|--------------------------|---|
| 57 * 0704                | Military Family Housing (O&M and Construction), Air Force     |
| 57 * 0810                | Environmental Restoration, Air Force                          |
| 57 * 1999                | Unclassified Receipts and Expenditures, Air Force             |
| 57 * 3010                | Aircraft Procurement, Air Force                               |
| 57 * 3011                | Procurement of Ammunition, Air Force                          |
| 57 * 3020                | Missile Procurement, Air Force                                |
| 57 * 3080                | Other Procurement, Air Force                                  |
| 57 * 3300                | Military Construction, Air Force                              |
| 57 * 3400                | Operation and Maintenance (O&M), Air Force                    |
| 57 * 3500                | Military Personnel, Air Force                                 |
| 57 * 3600                | Research, Development, Testing, and Evaluation (RDT&E), AF    |
| 57 * 3700                | Personnel, Air Force Reserve                                  |
| 57 * 3730                | Military Construction, Air Force Reserve                      |
| 57 * 3740                | Operation and Maintenance (O&M), Air Force Reserve            |
| 57 * 3830                | Military Construction, Air National Guard                     |
| 57 * 3840                | Operation and Maintenance (O&M), Air National Guard           |
| 57 * 3850                | Personnel, Air National Guard                                 |
| 57 X 5095                | Wildlife Conservation, etc., Military Reservations, Air Force |
| 57 X 8418                | Air Force Cadet Fund  |
| 57 X 8928                | Air Force General Gift Fund                                   |
| 57 * 3XXX                | Budget Clearing Accounts                                      |
| 57 * 6XXX (Nonentity)    | Deposit Fund Accounts   |

## 1.C. Appropriations and Funds

The Air Force's appropriations and funds are divided into general, working capital (revolving), trust, special, and deposit funds. These appropriations and funds are used to fund and report how the resources have been used in the course of executing the Air Force's missions. These notes describe attributes of these funds.

- **General funds** are used for financial transactions arising under congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and construction accounts.

- ▶ **Working Capital** fund activities are reported in a separate set of audited financial statements and related footnotes.
- ▶ **Trust** funds represent the receipt and expenditure of funds held in trust by the Air Force for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.
- ▶ **Special** funds account for Air Force receipts earmarked for a specific purpose.
- ▶ **Deposit** funds generally are used to: (1) hold assets for which the Air Force is acting as an agent or a custodian or whose distribution awaits legal determination, or (2) account for unidentified remittances.

## 1.D. Basis of Accounting

The Air Force generally records transactions on a budgetary basis and not an accrual accounting basis as is required by Federal GAAP. For FY 2002, the Air Force's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the Air Force's financial and non-financial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP for federal agencies and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP. The Air Force has undertaken efforts to determine the actions required to bring its financial and non-financial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (USSGL). Until such time as all of the Air Force's financial and non-financial feeder systems and processes are updated to collect and report financial information as required by Federal GAAP, the Air Force's financial data will be based on budgetary transactions (obligations, disbursements, and collections), transactions from non-financial feeder systems, and adjusted for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. However, when possible, the financial statements are presented on the accrual basis of accounting as required. One example of information presented on the budgetary basis is the data on the Statement of Net Cost (SONC). Much of this information is based on obligations and disbursements and may not always represent all accrued costs.

The Air Force identifies programs based upon the major appropriation groups provided by Congress. The Air Force is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

## 1.E. Revenues and Other Financing Sources

Financing sources for general funds are primarily provided through congressional appropriations received on both an annual and a multi-year basis. When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. The Air Force recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. Revenue is recognized when earned under the reimbursable order process.

Other financing sources reported by the DoD and Air Force do not include non-monetary support provided by U.S. Allies for common defense and mutual security. The U.S. has agreements with foreign countries that include both direct and indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. fleet is serviced in a port. DoD is reviewing these types of financing and cost reductions in order to establish accounting

policies and procedures to identify what, if any, of these costs are appropriate for disclosure in the DoD and Air Force financial statements in accordance with generally accepted accounting principles. Recognition of support provided by host nations would affect both financing sources and recognition of expenses.

## 1.F. Recognition of Expenses

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because the Air Force's financial and non-financial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, and environmental liabilities. Expenditures for capital and other long-term assets are not recognized as expenses in the Air Force's operations until depreciated in the case of Property, Plant, and Equipment (PP&E) or consumed in the case of Operating Materials and Supplies (OM&S). Net increases or decreases in unexpended appropriations are recognized as a change in the net position.

Certain expenses, such as annual and military leave earned but not taken, are financed in the period in which payment is made.

Operating expenses were adjusted as a result of the elimination of balances between DoD Components. See Note 19.I Intragovernmental Expenses and Revenue for disclosure of adjustment amounts.

## 1.G. Accounting for Intra-governmental Activities

The Air Force, as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial transactions applicable to the Air Force as though the agency was a stand-alone entity.

The Air Force's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related costs are not apportioned to federal agencies. The Air Force's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through budget appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Department of the Treasury does not allocate such interest costs to the benefiting agencies.

The Air Force's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The Air Force funds a portion of the civilian and military pensions. Reporting civilian pension under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The Air Force recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by the OPM in the SONC; and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position (SCNP).

The DoD reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. The DoD recognizes the actuarial liability for the military retirement

health benefits in the Other Defense Organization General Fund column of the DoD agency-wide consolidating/combining statements.

To prepare reliable financial statements, transactions occurring between components or activities within the Air Force, must be eliminated. However, the Air Force, as well as the rest of the federal government, cannot accurately identify all intragovernment transactions by customer. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between components or activities of the Air Force. For FY 1999 and beyond seller entities within the DoD provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. Intra-DoD intra-governmental balances are then eliminated. In the DoD Agency-Wide Statements, Intra-Air Force transactions (to the extent determinable) are eliminated in the accompanying Balance Sheet and SONC.

The Department of the Treasury, Financial Management Service (FMS) is responsible for eliminating transactions between the DoD and other federal agencies. In September 2000, the FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The DoD was not able to fully implement the policies and procedures in this guide related to reconciling intra-governmental assets, liabilities, revenues and expenses for non-fiduciary transactions. The Air Force however, was able to implement the policies and procedures contained in the "Intragovernmental Fiduciary Transactions Accounting Guide," as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide," for reconciling intra-governmental transactions pertaining to investments in federal securities, borrowings from the United States (U.S.) Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with the OPM.

## 1.H. Transactions with Foreign Governments and International Organizations

Each year, the DoD components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the "Arms Export Control Act of 1976." Under the provisions of the Act, DoD has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Customers may be required to make payments in advance.

## 1.I. Funds with the U.S. Treasury

The Air Force's financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the DFAS, Military Services, and the USACE disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports which provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

In addition, the DFAS sites and USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of Treasury then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the Air Force's recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled. Material disclosures are provided at Note 3. Differences between accounting offices' detail-level records and Treasury's FBWT accounts are disclosed in Note 21.B., specifically, differences caused by in-transit disbursements and unmatched disbursements (which are not recorded in the accounting offices' detail-level records).

## 1.J. Foreign Currency

The Air Force conducts a significant portion of its operations overseas. The Congress established a special account to handle gains and losses from foreign currency transactions for five general fund appropriations (operation and maintenance, military personnel, military construction, family housing operation and maintenance, and family housing construction). Gains and losses are computed as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustment to the original obligation amount at the time of payment. These currency fluctuations are not identified separately. Material disclosures are provided at note 7.

## 1.K. Accounts Receivable

As presented in the Balance Sheet statement, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The Air Force does not recognize an allowance for estimated uncollectible amounts from another federal agencies. Claims against other federal agencies are to be resolved between the agencies. Material disclosures are provided at Note 5.

## 1.L. Loans Receivable

Not applicable.

## 1.M. Inventories and Related Property

The related property portion of the amount reported on the Inventory and Related Property line includes OM&S. The OM&S are reported at approximate historical cost using Standard Price (SP).

The Air Force uses the SP method because its OM&S systems were designed for material management rather than accounting. The systems provide accountability and visibility over inventory items. They do not maintain the historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." Neither can they directly produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L 104-208).

SFFAS No. 3 distinguishes between "Inventory held for sale" and "Inventory held in reserve for future sale." There is no management or valuation difference between the two USSGL accounts. Further, the DoD manages only military or government-specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The Air Force holds material based on military need and support for contingencies. Therefore, the Air Force does not attempt to account separately for items held for "current" or "future" sale.

The OM&S, including munitions not held for sale, are valued at SP. Ammunition and munitions are treated as OM&S. For the most part, the Air Force is using the consumption method of accounting for OM&S, expensing material when it is issued to the end user.

The Air Force implemented new policy in FY 2002 to account for condemned material as "Excess, Obsolete, and Unserviceable." The net value of condemned material is zero, because the costs of disposal are greater than the poten-

tial scrap value. Potentially redistributable material, presented in previous years as "Excess, Obsolete, and Unserviceable," is included in "Held for Use" or "Held for Repair" categories according to its condition.

In addition, past audit results identified uncertainties about the completeness and existence of quantities used to produce the reported values. Material disclosures related to inventory and related property are provided at Note 9.B.

## 1.N. Investments in U.S. Treasury Securities

Gifts to the Air Force are invested in U.S. Treasury securities. Investments in U.S. Treasury securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other method if similar results are obtained. The intent is to hold investments to maturity, unless needed to finance purchases in accordance with the donor's intent. Consequently, a provision is not made for unrealized gains or losses on these securities. Related earnings are allocated to appropriate Air Force activities to be used in accordance with the directions of the donor. Material disclosures are provided at Note 4.

## 1.O. General Property, Plant and Equipment

General PP&E, exclusive of Military Equipment, is capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. Also, improvement costs over the DoD capitalization threshold of \$100,000 for General PP&E, exclusive of Military Equipment, are required to be capitalized. All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated. The cost of Military Equipment acquisition programs is depreciated on a composite or group basis over the estimated useful life of the items in the group. Group depreciation is where an average rate of depreciation is applied to a number of homogeneous assets, as characterized by similar characteristics and service lives. Composite depreciation is where an average or composite rate of depreciation is applied to a number of heterogeneous assets having dissimilar characteristics and service lives.

Prior standards provided for the expensing of Military Equipment when costs were incurred and when the reporting of such costs as supplementary stewardship information was deemed appropriate. In addition, prior standards provided for reporting of Military Equipment condition and deferred maintenance information. The Department of Defense has not reported the cost of Military Equipment in accordance with prior standards due to an absence of detailed cost information for Military Equipment acquired over many decades.

In June 2002 the Federal Accounting Standards Advisory Board issued a standard entitled "Eliminating the Category National Defense Property, Plant, and Equipment (ND PP&E)." In addition to eliminating the category ND PP&E, this standard rescinded SFFAS No. 11, "Amendment to Property, Plant, and Equipment – Definitional Changes;" amended SFFAS No. 8, "Supplementary Stewardship Reporting;" and amended SFFAS No. 6, "Accounting for Property, Plant, and Equipment." This standard is effective for years ending after September 30, 2002. The standard is currently sitting before Congress for a 45-day period in accordance with provisions of the Chief Financial Officers Act of 1990.

The standard on eliminating the category of ND PP&E provides for the capitalization of Military Equipment, previously defined as ND PP&E, and the reporting of such property as General Property, Plant, and Equipment. In recognition of the absence of detailed historical cost information, this standard provides that "If obtaining initial historical cost is not practical, estimated historical cost may be used. Other information such as but not limited to budget, appropriation, or

engineering documents and other reports reflecting amounts expended may be used as the basis for estimating historical cost." The standard acknowledges that imprecision may result from the use of estimates or other information.

The Department of the Air Force is implementing this standard through a "phased" approach. Capitalization of Military Equipment, previously defined as ND PP&E, will take several years because of the extensive research needed to develop cost estimates for the extensiveness of such inventory. Therefore, the Air Force cannot fully implement the standard on its effective date.

When it is in the best interest of the government, the Air Force provides to contractors government property necessary to complete contract work. Such property is either owned or leased by the Air Force, or purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E is required to be included in the value of General PP&E reported on the Air Force's Balance Sheet. The DoD completed a study that indicates that the value of General PP&E above the DoD capitalization threshold and not older than the DoD Standard Recovery Periods for depreciation, and that is presently in the possession of contractors, is not material to the DoD's financial statements. Regardless, the DoD is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement purposes. Accordingly, the Air Force currently reports only government property in the possession of contractors maintained in the Air Force property systems.

To bring the Air Force into fuller compliance with federal accounting standards, DoD has issued new property accountability and reporting regulations that require the DoD Components to maintain, in DoD Component property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with federal accounting standards.

Material disclosures are provided at Note 10.

### 1.P. Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as prepaid and deferred charges at the time of prepayment and reported as an asset on the Balance Sheet. Prepaid charges are expensed when the related goods and services are received.

### 1.Q. Leases

Generally, lease payments are for the rental of equipment vehicles and operating facilities and are classified as either capital or operating leases. When a lease essentially is equivalent to an installment purchase of property (a capital lease) and the value equals or exceeds the current DoD capitalization threshold, the applicable asset and liability are recorded. The amount recorded is the lesser of the present value of the rental and other lease payments during the lease term, excluding that portion of the payments representing executory costs paid to the lessor, or the asset's fair value. Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and are expensed as payments are made over the lease term.

### 1.R. Other Assets

The Air Force conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. In order to alleviate the potential burden on the contractor that long-term contracts can cause, the Air Force provides financing payments. One type of financing payment, for real property, is based on the percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are

treated as construction in progress and reported on the General PP&E line and in Note 10, General PP&E, Net. In addition, based on the Federal Acquisition Regulation, the Air Force makes financing payments under fixed price contracts not based on percentage of completion. The Air Force reports these financing payments as advances or prepayments in the "Other Assets" line item. The Air Force treats these payments as advances or prepayments because the Air Force becomes liable only after the contractor delivers the goods. If the contractor does not deliver a satisfactory product, the Air Force is not obligated to reimburse the contractor and the contractor is liable to repay the Air Force for the full amount of the advance. The DoD has completed a review of applicable federal accounting standards; public laws on contract financing; Federal Acquisition Regulation Parts 32, 49, and 52; and the OMB guidance in 5 Code of Federal Regulations Part 1315, "Prompt Payment." The DoD has concluded that SFFAS No. 1 does not address fully or adequately the subject of progress payment accounting and is considering what action is appropriate.

### **1.S. Contingencies and Other Liabilities**

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government", defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the Air Force. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable and the amount of loss can be reasonably estimated. Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist, but there is at least a reasonable possibility that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The Air Force's loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for the Air Force's assets. This type of liability has two components: non-environmental and environmental. Recognition of an anticipated environmental disposal liability commences when the asset is placed into service, consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment". Based upon the Air Force's policies and consistent with SFFAS No. 5, "Accounting for Liabilities of Federal Government", a non-environmental disposal liability is recognized for an asset when management makes a decision to dispose of the asset. Such amounts are developed in conjunction with and not easily identifiable separately from environmental disposal costs. Material disclosures are provided at Notes 14 and 15.

### **1.T. Accrued Leave**

Civilian annual leave and military leave that have been accrued and not used as of the balance sheet date are reported as liabilities. The liability reported at the end of the fiscal year reflects current pay rates.

### **1.U. Net Position**

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which legal liabilities for payments have not been incurred.

Cumulative results of operations represent the balances that result from subtracting expenses and losses from financing, including appropriations, revenue, and gains since inception of the activities. Beginning in FY 1998, this includes the cumulative amount of donations and transfers of assets in and out without reimbursement.

## 1.V. Treaties for Use of Foreign Bases

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. The DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements is retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the DoD Components. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is no longer allowed, losses will be recorded for the value of any non-retrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount to be paid the U.S. for such capital investments.

## 1.W. Comparative Data

Beginning in FY 2001, the Air Force presents the current and previous year's financial data for comparative purposes. This data is presented in the financial statements, as well as in the notes to the principal statements.

In FY 2002, the Department modified the financial statement presentation for the Statements of Net Cost, Changes in Net Position, and Financing. As a result, the Department's statements during this reporting period may not always lend themselves to comparative analysis. In some instances, amounts on the statements were reported on one financial line in FY 2001 and split into multiple financial lines for FY 2002, in accordance with OMB's guidance.

## 1.X. Unexpended Obligations

The Air Force records obligations for goods and services that have been ordered but not yet received. No liability for payment has been established in the financial statements because goods and services have yet to be delivered.

## Note 2. Nonentity and Entity Assets

| As of September 30,                    | 2002                |                       |                       | 2001                  |
|--|---------------------|-----------------------|-----------------------|-----------------------|
|  | Nonentity           | Entity                | Total                 |                       |
| (Amounts in thousands)                 |                     |                       |                       |                       |
| <b>Intra-governmental Assets:</b>      |                     |                       |                       |                       |
| Fund Balance with Treasury             | \$ 54,750           | \$ 47,888,000         | \$ 47,942,750         | \$ 44,259,788         |
| Investments                            | 0                   | 708                   | 708                   | 1,088                 |
| Accounts Receivable                    | 10,913              | 432,242               | 443,155               | 394,513               |
| Other Assets                           | 0                   | 4,989                 | 4,989                 | 351,706               |
| <b>Total Intra-governmental Assets</b> | <b>\$ 65,663</b>    | <b>\$ 48,325,939</b>  | <b>\$ 48,391,602</b>  | <b>\$ 45,007,095</b>  |
| <b>Non-Federal Assets:</b>             |                     |                       |                       |                       |
| Cash and Other Monetary Assets         | \$ 140,645          | \$ 0                  | \$ 140,645            | \$ 486,225            |
| Accounts Receivable                    | 711,546             | 306,364               | 1,017,910             | 561,769               |
| Inventory & Related Property           | 0                   | 28,817,563            | 28,817,563            | 57,610,355            |
| General Property, Plant, and Equipment | 0                   | 24,247,152            | 24,247,152            | 20,444,148            |
| Other Assets                           | 125,064             | 7,410,850             | 7,535,914             | 5,509,604             |
| <b>Total Non-Federal Assets</b>        | <b>\$ 977,255</b>   | <b>\$ 60,781,929</b>  | <b>\$ 61,759,184</b>  | <b>\$ 84,612,101</b>  |
| <b>Total Assets:</b>                   | <b>\$ 1,042,918</b> | <b>\$ 109,107,868</b> | <b>\$ 110,150,786</b> | <b>\$ 129,619,196</b> |

### Other Information

Relevant Information for Comprehension. Assets are categorized as:

- Entity assets consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations.
- Nonentity assets are assets held by an entity, but are not available for use in the operations of the entity.

**Note Reference.** For Additional Line Item discussion, see:

- Note 3, Fund Balance with Treasury
- Note 4, Investments
- Note 5, Accounts Receivable
- Note 6, Other Assets.

## Note 3. Fund Balance with Treasury

| As of September 30,                              | 2002                 | 2001                 |
|--|----------------------|----------------------|
| (Amounts in thousands)                           |                      |                      |
| <b>Fund Balances:</b>                            |                      |                      |
| Appropriated Funds                               | \$ 47,889,092        | \$ 44,245,073        |
| Revolving Funds                                  | 0                    | 0                    |
| Trust Funds                                      | 11,746               | 6,617                |
| Other Fund Types                                 | 41,912               | 8,098                |
| Total Fund Balances                              | <b>\$ 47,942,750</b> | <b>\$ 44,259,788</b> |
| <b>Fund Balances Per Treasury Versus Agency:</b> |                      |                      |
| Fund Balance per Treasury                        | \$ 47,942,751        | \$ 44,259,786        |
| Fund Balance per Reconciling Amount              | <b>\$ 47,942,750</b> | <b>\$ 44,259,788</b> |
|  | <b>\$ 1</b>          | <b>\$ -2</b>         |

### Other Information Related to Fund Balance with Treasury

#### *Fluctuations*

The appropriated funds increase of \$3,644 million is directly related to the receipt of increased budget authority.

The trust fund increase of \$5.1 million results from Gift Fund Donations. The Increase in Gift Fund FBWT is a build up of assets from the difference in timing of receipt of donations, and use of donations. The Air Force Museum Foundation is funding construction of a third building at the Air Force Museum. Contributions by the foundation in FY 2002 were approximately \$11.5 million.

The increase in the other fund types represents an increase in deposit fund collections primarily in Withheld State and Local Taxes, Servicemen's Group Life Insurance Fund, and other deposit accounts. Timing of collections and disbursements from these accounts account for the difference.

The FBWT in appropriations canceling on September 30, 2002 was withdrawn in accordance with Treasury policy. This amount was \$820 million for FY 2002.

#### *Other information Related to Fund Balance with Treasury*

- **Intragovernmental Paying and Collecting (IPAC).** The Intra-governmental Payment and Collection (IPAC) differences are reconcilable differences that represent amounts reported by Treasury but not reported by the Organization. As of September 30, 2002 and 2001, there were no IPAC differences greater than 180-days old. A majority of the differences represent internal DoD transactions and, therefore, do not affect the FBWT at the DoD consolidated level. For individual entity level statements, however, these differences would affect the amount reported for FBWT. The DoD is working with the DFAS sites, and the Department of Treasury, and a Treasury Department contractor to develop an automated tool to aid in reconciling the Treasury's Statement of Differences. The accounting and paying centers established metrics and implemented monthly reporting requirements for FY 2001. These actions will aid the Air Force in clearing the old balances and establishing better internal controls over the IPAC process.

- **Check Issue Discrepancy.** DFAS is in the process of collecting information for all check issue discrepancy data unsupportable because: (1) records have been lost during deactivation of disbursing offices; (2) the Treasury will not assist in research efforts for transactions over 1-year old; or (3) corrections were processed for transactions that Treasury removed from the check comparison report. Transactions that have no supporting documentation due to one of the preceding situations shall be provided to the Department of the Treasury with a request to remove them from the Treasury Check Comparison Report. The vast majority of the remaining check issue discrepancies are a result of timing differences between the Air Force and the Department of the Treasury for processing checks. Further, no empirical evidence has been presented that demonstrates check issue discrepancies adversely affect the FBWT.

#### Note Reference

See Note Disclosure 1.I., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Funds with the U.S. Treasury.

## Note 4. Investments

| As of September 30,<br>(Amounts in thousands) | 2002          |                        |                                     |                     |                            | 2001                |
|---|---------------|------------------------|-------------------------------------|---------------------|----------------------------|---------------------|
|   | Cost          | Amortization<br>Method | Amortized<br>(Premium/<br>Discount) | Investments,<br>Net | Market Value<br>Disclosure | Investments,<br>Net |
| <b>Intra-governmental Securities</b>          |               |                        |                                     |                     |                            |                     |
| Non-Marketable, Market-Based                  | \$ 708        |                        | \$ 0                                | \$ 708              | \$ 0                       | \$ 1,074            |
| Subtotal                                      | \$ 708        |                        | \$ 0                                | \$ 708              | \$ 0                       | \$ 1,074            |
| Accrued Interest                              | \$ 0          |                        | \$ 0                                | \$ 0                | \$ 0                       | \$ 14               |
| Total Intragovernmental Securities            | <u>\$ 708</u> |                        | <u>\$ 0</u>                         | <u>\$ 708</u>       | <u>\$ 0</u>                | <u>\$ 1,088</u>     |
| <b>Other Investments:</b>                     |               |                        |                                     |                     |                            |                     |
|   | \$ 0          |                        | \$ 0                                | \$ 0                | \$ 0                       | \$ 0                |

#### Other Information

##### Fluctuations

The Air Force Gift Fund cash donations that are not going to be used in the immediate future to fund donor designated projects are invested in marketable securities with Treasury. The current year decrease in investments were due to investments being redeemed.

##### Relevant Information for Comprehension

The Air Force Gift Fund was established to control and account for the disbursement and use of monies donated to the Air Force along with the interest received from the investment of such donations. The related earnings are allocated to appropriate Air Force activities to be used in accordance with the directions of the donor. These funds are recorded as Non-Marketable Market Based U.S. Treasury Securities, which are not traded on any security exchange, but they mirror the prices of marketable securities with similar terms.

#### Note Reference

See Note Disclosure 1.N., Investments in U.S. Treasury, for additional Air Force policies governing Investments in U.S. Treasury Securities.

## Note 5. Accounts Receivable

| As of September 30,                               | 2002                |  | 2001                     |
|---|---------------------|--|--------------------------|
|   | Gross Amount Due    | Allowance for Estimated Uncollectibles | Accounts Receivable, Net |
| (Amounts in thousands)                            |                     |  |                          |
| <b>Intra-governmental Receivables:</b>            | \$ 443,155          | N/A                                    | \$ 443,155               |
| <b>Non-Federal Receivables (From the Public):</b> | \$ 1,290,055        | \$ -272,145                            | \$ 1,017,910             |
| <b>Total Accounts Receivable:</b>                 | <b>\$ 1,733,210</b> | <b>\$ -272,145</b>                     | <b>\$ 1,461,065</b>      |
|   |                     |  | <b>\$ 956,282</b>        |

### Allowance Method

The total allowance is determined at the Air Force departmental level. These department level amounts are derived as follows: For closed years receivables, an arbitrary allowance rate of 50 percent results in an estimated allowance of \$260.8 million. Interest allowance of \$3.3 million is calculated using an average percent of write-offs to outstanding public accounts receivable over a five-year period. Closed year receivables and interest are payable to the Treasury when collected. For Air Force entity receivables, the allowance is computed each year based on the average percent of write-offs to outstanding public accounts receivable for the last five years and results in an estimated allowance of \$8.0 million.

### Other Information

#### *Relevant Information for Comprehension*

As presented on the Consolidated Balance Sheet, accounts receivable include reimbursements receivable and refunds receivable such as out-of-service debts (amounts owed by former service members), contractor debt, and unused travel tickets. It also includes net interest receivable per DoD FMR Vol. 6B guidance. Canceled accounts receivable are reported as nonentity receivables because these amounts are deposited into a Treasury miscellaneous receipt account when collected. A reconciliation between Report on Receivables Due from the Public and the Balance Sheet was accomplished. The differences between the Balance Sheet and Report on Receivables Due From the Public (line 7) are \$3.5 million and \$.9 million for entity and nonentity receivables, respectively. These differences relate to undistributed collections that are prorated between public and intragovernmental receivables on the balance sheet at fiscal year-end. Gross interest receivables, nonentity, public was \$274.9 million with an allowance for estimated uncollectibles of \$3.3 million, resulting in a net reported receivable of \$271.6 million.

#### *Intra-governmental Account Receivable Adjustments*

Increases in nonentity and entity public receivables for FY 2002 are due to Defense Debt Management System – Columbus (DDMS/COL) contractor debts. In addition, other debts reported for the first time are the Air Force portion of the General Electric debt in litigation of \$316 million and the Defense Civilian Pay System (DCPS) reported debts of \$5.3 million. The reporting of these debts resulted from an OSD initiative to ensure accountability of all debt on all Services' financial statements.

The increase in intragovernmental accounts receivable relates to an increase in reimbursable budget activity of \$2.4 billion.

### *Intra-governmental Receivables Over 180 Days*

The amount of public receivables over 180 days is \$989.8 million of which \$841.8 million represent principal and interest in a formal appeals process (in litigation). The aging of intragovernmental receivables over 180 days was reported as \$17.3 million. Public refunds receivable represent 78 percent or \$793 million of the total net amount of \$1.017 billion.

### *Elimination Adjustments*

Accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Air Force was unable to reconcile intragovernmental accounts receivable balances with its trading partners. The DoD intends to develop long-term systems improvements that will include sufficient controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

### *Note Reference*

See Note Disclosure 1.K, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Accounts Receivable.

## **Note 6. Other Assets**

| As of September 30,                     | 2002                       | 2001                       |
|---|----------------------------|----------------------------|
| (Amounts in thousands)                  |                            |                            |
| <b>Intra-governmental Other Assets:</b> |                            |                            |
| Advances and Prepayments                | \$ 4,989                   | \$ 351,706                 |
| Total Intra-governmental Other Assets   | <u>\$ 4,989</u>            | <u>\$ 351,706</u>          |
| <b>Non-Federal Other Assets:</b>        |                            |                            |
| Outstanding Contract Financing Payments | \$ 7,275,852               | \$ 5,358,278               |
| Other Assets (With the Public)          | <u>260,062</u>             | <u>151,326</u>             |
| Total Non-Federal Other Assets          | <u>\$ 7,535,914</u>        | <u>\$ 5,509,604</u>        |
| <b>Total Other Assets:</b>              | <b><u>\$ 7,540,903</u></b> | <b><u>\$ 5,861,310</u></b> |

### Other Information Related to Other Assets

#### *Fluctuations*

Other Assets decreased dramatically in FY 02. Advanced billing of \$348 million from Depot Maintenance Activity Group were included and reported in FY 01. No advanced billings were required for FY 02.

Outstanding Contract Financing Payments for FY 2002 shows an increase of about 37% from \$5.3 to \$7.2 billion. The increase is predominantly attributed to the start-up cost for the C-17 and F-22 airplanes.

The amount of \$260.1 million in other assets (with the public) is composed of \$124.7 million in advances to contractors and suppliers, \$100 million in travel advances, and \$35.4 million in other non-federal advances. Other assets will fluctuate from year to year depending on the timing and/or quantity of advances and recoveries of advances.

**Relevant Information for Comprehension**

- Other Assets. Advances to contractors as reported on the SF 1219, Statement of Accountability are being reported for payments as part of an advance-payment pool agreement made with the Massachusetts Institute of Technology and other non-profit institutions. Advance-payment pool agreements are used for the financing of cost-type contracts with non-profit educational or research institutions for experimental, or research and development work, when several contracts or a series of contracts require financing by advance payments.
- Outstanding Contract Financing Payments. The Air Force has reported outstanding financing payments for fixed price contracts as an advance and prepayment because under the terms of the fixed price contracts, the Air Force becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Air Force is not obligated to reimburse the contractor for its cost and the contractor is liable to repay the Air Force for the full amount of the outstanding contract finance payments. The DoD has completed its review of all applicable federal accounting standards; applicable public laws on contract financing; Federal Acquisition Regulation Parts 32, 48, and 52; and the OMB guidance in 5 CFR Part 1315, "Prompt Payment." The DoD has concluded that the SFFAS No. 1, Accounting for Selected Assets and Liabilities does not fully or adequately addresses the subject of progress payment accounting and is considering what further action is appropriate.

**Note Reference**

See Note Disclosure 1.R, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Other Assets.

**Note 7. Cash and Other Monetary Assets**

| As of September 30,  | 2002              | 2001              |
|--|-------------------|-------------------|
| (Amounts in thousands)   |                   |                   |
| <b>Cash</b>  | \$ 116,261        | \$ 463,648        |
| <b>Foreign Currency (non-purchased)</b>                        | 24,384            | 22,577            |
| <b>Total Cash, Foreign Currency, and Other Monetary Assets</b> | <u>\$ 140,645</u> | <u>\$ 486,225</u> |

**Other Information Pertaining to Entity Cash & Other Monetary Assets:****Definitions**

- **Cash**—The total of cash resources under the control of the Air Force, which includes coin, paper currency, negotiable instruments, and amounts on deposit in banks and other financial institutions.
- **Foreign Currency**—consists of the total U.S. dollar equivalent of foreign currencies.

**Other Information Related to Cash and Other Monetary Assets**

**Relevant Information for Comprehension.** Cash and foreign currency reported primarily of cash held by Disbursing Officers to carry out their paying, collecting and foreign currency accommodation exchange mission. The primary

source of the amounts reported is the Standard Form 1219, Statements of Accountability reported by DoD Disbursing Officers.

In DoD foreign currency is translated to U.S. Dollars utilizing the Department of Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U.S. Government's acquisition of foreign currency for its official disbursements and accommodation of exchange transactions.

The nonentity cash of \$116.3 million represents Disbursing Officers' cash of \$116.2 million and undeposited collections of \$.05 million.

The \$463.7 million reported as cash for FY 2001 has been restated to \$85.0 million to correct an error in reporting. The total correction removes cash of \$378.7 million, consisting of \$182.6 million of Foreign Military Sales deposits and \$196.1 million of Foreign Military Sales undeposited collections. The restated FY 2001 amount of \$85.0 million consists of \$84.3 million of Disbursing Officers' cash and \$.6 million of undeposited collections.

The change in the cash balances shown above from the unrestated FY 2001 balance of \$463.6 to the FY 2002 balance of \$116.3 million is due primarily to no Foreign Military Sales amounts being reported in for FY 2002.

The change between fiscal years after the restatement of FY 2001 is an increase in cash of \$31.3 million. The increase consists of an increase of \$31.9 million in Disbursing Officers' cash and a decrease of \$.6 million in undeposited collections.

#### Note Reference

See Note Disclosure 1.J, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Foreign Currency.

## Note 8. Direct Loan and/or Loan Guarantee Programs

### Direct Loan and/or Loan Guarantee Programs

The entity operates the following direct loan and/or Loan guarantee program(s):

- Military Housing Privatization Initiative
- Direct Loan Or Loan Guarantee Program Title

### Other Information

Not applicable.

## Note 9. Inventory and Related Property Operating Materials and Supplies, Net

| As of September 30,                 | 2002             |                       |               | 2001          | Valuation Method |  |
|-------------------------------------|------------------|-----------------------|---------------|---------------|------------------|--|
|                                     | OM&S Gross Value | Revaluation Allowance | OM&S, Net     | OM&S, Net     |                  |  |
| (Amounts in thousands)              |                  |                       |               |               |                  |  |
| <b>OM&amp;S Categories:</b>         |                  |                       |               |               |                  |  |
| Held for Use                        | \$ 23,779,741    | \$ 0                  | \$ 23,779,741 | \$ 47,343,430 | SP               |  |
| Held for Repair                     | 5,037,823        | 0                     | 5,037,823     | 10,223,991    | SP               |  |
| Excess, Obsolete, and Unserviceable | 272,694          | -272,694              | 0             | 42,934        | NRV              |  |
| Total                               | \$ 29,090,258    | \$ -272,694           | \$ 28,817,564 | \$ 57,610,355 |                  |  |

### Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost adjusted for holding gains and losses

NRV = Net Realizable Value

SP = Standard Price

O = Other

AC = Actual Cost

### Restrictions on OM&S

Not applicable.

### Other Information

#### General Composition of Operating Materials and Supplies

The Air Force's OM&S includes munitions (bombs, conventional ammunitions) and spare and replacement parts for aircraft, missiles and related assets.

### Balances

The Federal Accounting Standards require disclosure of the amount of OM&S held for future use. Except for an immaterial amount of munitions, the Air Force does not have any items considered held for future use.

### Decision Criteria for Identifying the Category to Which Operating Materials and Supplies Are Assigned

Managers determine which items are more costly to repair than to replace. Items retained for management purposes are coded "condemned." The net value of these items is zero, and is shown as "Excess, Obsolete, and Unserviceable."

### Changes in the Criteria for Identifying the Category to Which Operating Materials and Supplies Are Assigned

The category "Held for Use" includes all issuable material. The Category "Held for Repair" includes all economically repairable material. Before FY 2002, the Department showed "Potentially redistributable" material, regardless of condition, as Excess, Obsolete, and Unserviceable.

### Relevant Information for Comprehension

**Government Furnished Material (GFM) and Contractor Acquired Material (CAM).** Generally, the value of the Air Force's GFM and CAM in the hands of contractors is not included in the OM&S values reported above. The DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating information already in other existing logistics systems.

**Other Air Force Disclosures.** In FY 2002, the Air Force did not receive OM&S financial data from several manually maintained accounts that reported balances in prior years. Some of these accounts had recently been automated and the retail OM&S inventories were included in the Standard Base Supply System, but the wholesale inventories were not included. The account managers thinking that all OM&S for their respective program had been included did not report the wholesale inventories. To correct this reporting problem, a meeting was held with the Air Force Audit Agency (AFAA) in November, and a follow-on meeting is scheduled for early December to ensure all accounts properly report all OM&S inventories for the financial statements first quarter FY 2003. To provide a more realistic picture of ending balances for OM&S, the Air Force instructed DFAS to use the prior year wholesale account balances for the FY 2002 financial statements.

The Air Force provided only minimal accounting data that could be used to prepare the financial statement at year-end for OM&S. The data provided consisted of only serviceable and unserviceable ending balances. Without the required additional data (beginning balances, acquisitions, transfers in, amount used, transfers out and etc.) DFAS could only report the "net change" between prior years ending balance and the values reported as current year ending balances. Although, the required additional data is available in some Air Force systems, no electronic interface currently exists between the Air Force supply systems and DFAS accounting systems to translate and update the general ledger accounts. To correct this problem, the Air Force and DFAS are working on a hard copy report to provide the additional data until the electronic interfaces can be developed.

Although, the Air Force OM&S systems, in most cases, capture trading partner data at the transaction level, there are no electronic interfaces between the Air Force supply systems and DFAS accounting systems that can capture and report this data for all items transferred in and out. Consequently, intra-governmental transactions (trading partner data) could not be reconciled. The Air Force is in the process of developing a standard electronic interface that will capture and report the required data to the General Accounting and Finance System – Rehost, a DFAS system scheduled to be available in April 2003.

**Reversal of FY 2001 Early OM&S Implementation.** In accordance with a Department of Defense Inspector General (DoDIG) directive, FY 2002 and FY 2001 OM&S balances on the Balance Sheet for retail and wholesale guided and tactical missiles, missile motors, aircraft engines and electronic pods were removed from the Balance Sheet. A Prior Period Adjustment was prepared in FY 2002 to remove the \$31,869.7 million value balance of these items as of September 30, 2001. The net \$2,499.5 million net increase of current year changes for these items, previously recorded in FY 2002, has been removed from the Balance Sheet and reclassified as expense. The DoDIG's opinion is that these items should not have been reclassified as OM&S from National Defense Property, Plant and Equipment on the FY 2001 financial statements, but should to be considered Non-reportable National Defense Property, Plant, and Equipment.

The restatement of FY 2001 numbers brings the Air Force's report in line with the FY 2001 Government wide financial statements which did not include amounts for these types of items.

#### Note Reference

See Note Disclosure 1.M, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Inventory and Related Property.

## Note 10. General PP&E, Net

| As of September 30,                       | 2002                                    |                 |                      |  |                   | 2001                       |  |
|---|---|-----------------|----------------------|--|-------------------|----------------------------|--|
|   | Depreciation/<br>Amortization<br>Method | Service<br>Life | Acquisition<br>Value | (Accumulated<br>Depreciation/<br>Amortization) | Net Book<br>Value | Prior FY Net<br>Book Value |  |
| (Amounts in thousands)                    |   |                 |                      |  |                   |                            |  |
| <b>Major Asset Classes:</b>               |   |                 |                      |  |                   |                            |  |
| Land                                      | N/A                                     | N/A             | \$ 364,091           | N/A  | \$ 364,091        | \$ 346,220                 |  |
| Buildings, Structures, Facilities         | S/L                                     | 20 Or 40        | \$ 38,697,669        | \$ -22,423,315                                 | \$ 16,274,354     | \$ 15,577,312              |  |
| Software                                  | S/L                                     | 2-5 Or 10       | \$ 23,806            | \$ -92   | \$ 23,714         | \$ 28,521                  |  |
| Equipment                                 | S/L                                     | 5 Or 10         | \$ 14,801,533        | \$ -10,100,423                                 | \$ 4,701,110      | \$ 1,658,080               |  |
| Assets Under Capital Lease <sup>[1]</sup> | S/L                                     | lease term      | \$ 409,498           | \$ -206,493                                    | \$ 203,005        | \$ 233,394                 |  |
| Construction-in-Progress                  | N/A                                     | N/A             | \$ 2,679,946         | N/A  | \$ 2,679,946      | \$ 2,597,485               |  |
| Other                                     |   |                 | \$ 932               | \$ 0   | \$ 932            | \$ 3,136                   |  |
| Total General PP&E                        |   |                 | \$ 56,977,475        | \$ -32,730,323                                 | \$ 24,247,152     | \$ 20,444,148              |  |

<sup>[1]</sup> Note 15.B for additional information on Capital Leases

Legend for Valuation Methods:

S/L = Straight Line      N/A = Not Applicable

### Other Information

#### Fluctuations

As of September 30, 2002, approximately \$1.2 billion of assets (Class E Equipment) had not passed the required edit check (missing historical cost, acquisition dates) and therefore had not been included in the values reported by the Air Force Equipment Management System (AFEMS). To assure that these "in suspense" assets were included in the financial statements, the Air Force used the standard price, where the cost data was missing, and used a historical process to arrive at acquisition dates. These equipment assets were then depreciated and reported using a manual process. This process may or may not provide a true picture of the class E equipment owned by the Air Force. This "in Suspense" data problems is currently being worked by the Air Force to ensure that all assets are properly recorded and reported by AFEMS.

The change in the other line item represents the timing in timber harvesting, and complete data is not always available.

AFEMS also contributed to the overall increase of about 19%, or \$3.8 billion, in the total amount for general PP&E. The increase was mainly attributed to increased emphasis being placed on cleaning up old "in suspense" assets, identifying actual cost rather than using standard price, improved accountability and increased acquisitions of class E equipment.

The real property system, Automated Civil Engineering System, which reports construction-in-progress, building and structures, also reported an increase by about \$1.1 billion. This increase was attributed to current year acquisitions, plus several bases cleaning up prior period work order backlogs as identified by the Air Force Audit Agency.

#### Relevant Information for Comprehension

Personal property in the Air Force consists of general equipment, Automated Data Processing (ADP) hardware, medical equipment, Special Tools and Special Test Equipment (ST/STE).

### **Other Air Force Disclosures**

The Air Force reported \$162 million in ST/STE, from two systems, on the financial statements. Since neither of the two systems had actual dates for items placed in service, the Air Force used the "date the first aircraft was delivered" as the depreciation start date. Using this methodology, most of the ST/STE appeared to be completely depreciated. In addition, in one of the two systems, the cost data could not be validated. It appeared that many items may have been estimated or that the system could not report items that exceeded \$9.9 million. These items, in most cases, were also identified as being fully depreciated.

The Air Force, in FY 2001, started reporting values for internal used software as required by SFFAS No. 10. Included, as software assets, are systems where software development budgets exceeded \$2 million. In FY 2001 and 2002, the data for this line item was maintained manually. In FY 2002, the values reported for the account, "Internal-Use software in Development," for five of the 16 systems did not change, although these systems were still under development. Several Air Force personnel stated that efforts to update these development figures was a constant problem, since no workable system existed for direct cost updates. Consequently, the financial statements may be understated. The Air Force recognized the manual process as short-term fix, and is exploring the feasibility of using AFEMS as the system to track future costs for internal use software. Assuming the availability of funds, the Air Force plans to start capturing and reporting these assets in AFEMS no later than FY 2004.

### **Military Equipment (Unaudited Supplementary Information)**

In June 2002 the Federal Accounting Standards Advisory Board issued a standard entitled Eliminating the Category National Defense Property, Plant, and Equipment (ND PP&E). In addition to eliminating the category ND PP&E, this standard rescinds Statement of Federal Financial Accounting Standards (SFFAS) No. 11, Amendment to Property, Plant, and Equipment – Definitional Changes; amends SFFAS No. 8, Supplementary Stewardship Reporting; and amends SFAS No. 6, Accounting for Property, Plant, and Equipment. This standard is effective for years ending after September 30, 2002. The standard is currently sitting before Congress for a 45-day period in accordance with provisions of the Chief Financial Officers Act of 1990.

Prior standards provide for the expensing of ND PP&E when costs are incurred and the reporting of such costs as supplementary stewardship information. The Department of Defense has not reported the cost of ND PP&E in accordance with existing standards due to an absence of detailed cost information for property acquired over many decades.

The Standard on eliminating the category of ND PP&E provides for the capitalization of property previously defined as ND PP&E and the reporting of such property as General Property, Plant, and Equipment. In recognition of the absence of detailed historical cost information, this standard provides that, "If obtaining initial historical cost is not practical, estimated historical cost may be used. Other information such as but not limited to budget, appropriation, or engineering documents and other reports reflecting amounts expended may be used as the basis for estimating historical cost." The standard acknowledges that imprecision may result from the use of estimates or other information.

Capitalization of property previously defined as ND PP&E will require extensive research to develop cost estimates for the property inventory. The DoD initiated the valuation process this fiscal year by conducting detailed reviews of three selected "pilot" programs including the F-15 Tactical Fighter. The objective of this effort was the development of a valuation methodology and associated business rules, which the Air Force could use to value the balance of its military equipment. The accompanying information summarizes the results of the review of the F-15 program.

### Valuation Basis

The valuation is based on information derived from reports reflecting amounts expended on this program.

**Included costs**—The estimated total program costs include funds expended for procurement, research, development, test and evaluation, trainers and simulators, government furnished equipment, and other items included in the cost of the acquisition programs. The estimated portion of total program cost attributable to equipment under construction is reported as “work-in-process.”

**Useful life and depreciation**—The estimated useful life used for the F-15 Tactical Fighter is 20 years. Depreciation is calculated on a group basis whereby the depreciation rate is applied to the estimated cumulative cost of the equipment “placed in service.”

**Excluded costs**—The cost of military construction (MILCON) has been excluded and will be reported as real property. The cost of initial spares has also been excluded from the program values.

Estimated program cost, accumulated depreciation, and net book value for the F-15 Tactical Fighter program are presented in the following table.

| (Dollars in Thousands)       | Program Cost | Accumulated Depreciation | Net Book Value |
|------------------------------|--------------|--------------------------|----------------|
| <b>F-15 Tactical Fighter</b> |              |                          |                |
| Placed in service            | \$23,077,316 | \$19,085,384             | \$3,991,932    |
| Work in process              | 69,552       | -                        | 69,552         |

### Note Reference

See Note Disclosure 1.O, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing General Property, Plant and Equipment (PP&E).

## Note 10.A. Assets Under Capital Lease

| As of September 30,                                  | 2002              | 2001              |
|--|-------------------|-------------------|
| (Amounts in thousands)                               |                   |                   |
| <b>Entity as Lessee, Assets Under Capital Lease:</b> |                   |                   |
| Land and Buildings                                   | \$ 408,540        | \$ 387,860        |
| Equipment  | 958               | 0                 |
| Accumulated Amortization                             | -206,493          | -154,466          |
| <b>Total Capital Leases</b>                          | <b>\$ 203,005</b> | <b>\$ 233,394</b> |

### Description of Lease Arrangements

The Air Force is the leasee in twelve capital leases. Eleven are for Military Family Housing acquired through Section 801 Family Housing Program, and one is for a piece of medical equipment. The leased items are capitalized and reported as an asset when the costs of the items exceed the capitalization threshold. Leased items not meeting the capitalization threshold are expensed. All leases prior to FY 1992 are funded on a fiscal year basis. This correlates to six of the Military Family Housing Leases.

## Other Information

### Note Reference

See Note Disclosure 1.Q, Significant Accounting Policies, for additional discussion of financial reporting requirements and DoD policies governing Leases.

The fluctuation in Assets under Capital Leases is due to improved gathering and reporting of information.

## Note 11. Liabilities Not Covered and Covered by Budgetary Resources

| As of September 30,<br>(Amounts in thousands)                                   | 2002                                 |  |                      | 2001                 |
|---|--------------------------------------|--|----------------------|----------------------|
|   | Covered by<br>Budgetary<br>Resources | Not Covered by<br>Budgetary<br>Resources | Total                |                      |
| <b>Intra-governmental Liabilities:</b>  |                                      |  |                      |                      |
| Accounts Payable  | \$ 1,120,777                         | \$ 3,956                                 | \$ 1,124,733         | \$ 740,585           |
| Debt  | 0                                    | 134                                      | 134                  | 108                  |
| Other   | 1,569,812                            | 609,275                                  | 2,179,087            | 2,257,168            |
| <b>Total Intra-governmental Liabilities</b>                                     | <b>\$ 2,690,589</b>                  | <b>\$ 613,365</b>                        | <b>\$ 3,303,954</b>  | <b>\$ 2,997,861</b>  |
| <b>Non-Federal Liabilities:</b>   |                                      |  |                      |                      |
| Accounts Payable  | \$ 6,206,967                         | \$ 0                                     | \$ 6,206,967         | \$ 4,180,417         |
| Military Retirement Benefits and Other Employment-Related Actuarial Liabilities | 0                                    | 1,211,045                                | 1,211,045            | 1,269,811            |
| Environmental Liabilities   | 0                                    | 8,454,564                                | 8,454,564            | 7,312,942            |
| Other Liabilities   | 1,532,626                            | 2,454,562                                | 3,987,188            | 4,118,979            |
| <b>Total Non-Federal Liabilities</b>  | <b>\$ 7,739,593</b>                  | <b>\$ 12,120,171</b>                     | <b>\$ 19,859,764</b> | <b>\$ 16,882,149</b> |
| <b>Total Liabilities:</b>   | <b>\$ 10,430,182</b>                 | <b>\$ 12,733,536</b>                     | <b>\$ 23,163,718</b> | <b>\$ 19,880,010</b> |

## Other Information

### Liabilities Not Covered and Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources are those liabilities which are not considered covered by realized budgetary resources as of the balance sheet date.

Liabilities Covered by Budgetary Resources are those that are incurred by the reporting entity which are covered by realized budget resources as of the balance sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include: (1) new budget authority, (2) spending authority from offsetting collections (credited to an appropriation or fund account), (3) recoveries of unexpired budget authority through downward adjustments to prior year obligations, (4) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and (5) permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the OMB without further action by the Congress or without a contingency first having been met.

## Other Information Related to Liabilities Covered by Budgetary Resources

Other Intra-governmental Liabilities Covered by Budgetary Resources consists of \$213.8 million in advances from others, \$15.6 million in deposit fund liabilities, \$1,007.0 million in resources payable to treasury, \$265.3 million in Disbursing Officer's cash liability, \$22.1 million in unemployment compensation liabilities, and \$46.0 million in civilian benefits liability-government portion. The increase over FY 2001 is primarily due to resources payable to treasury.

Other Non-federal Liabilities Covered by Budgetary Resources consists of \$1,166.9 million in accrued payroll and benefits liabilities for military and civilians, \$16.9 million in Temporary Early Retirement Authority liabilities, \$216.5 million in capital lease liabilities, \$93.2 million in advances from others, and \$39.1 million in deposit fund liabilities. The increase over FY 2001 is primarily due to accrued payroll and benefits liabilities.

## *Other Information Related to Liabilities Not Covered by Budgetary Resources*

Other Intra-governmental Liabilities Not Covered by Budgetary Resources consists of \$303.6 million in judgement fund liabilities, \$305.7 million in Federal Employees Compensation Act – Workman's Compensation (FECA) reimbursement to Department of Labor (DoL). The decrease over FY 2001 is primarily due to judgement fund liabilities.

Other Non-federal Liabilities Not Covered by Budgetary Resources consists of \$452.9 million in accounts payable canceled appropriations, \$62.6 million in environmental liabilities, \$62.9 million in capital lease liabilities, \$201.3 million in contingent liabilities, \$1,674.3 million in accrued annual leave liabilities for military and civilians, and \$.5 million in accrued interest liability. The decrease over FY 2001 is due to contingent liabilities, capital lease liabilities, accrued annual leave liabilities, and nonenvironmental disposal liabilities.

## Note Reference

For Additional Line Item discussion, see:

- Note 12, Accounts Payable
- Note 13, Liabilities Not Covered and Covered by Budgetary Resources
- Note 14, Environmental Restoration Liabilities, and Environmental Disposal Liabilities
- Note 15, Other Liabilities
- Note 16, Commitments and Contingencies
- Note 17, Military Retirement Benefits and Other Employment Related Actuarial Liabilities

## Note 12. Accounts Payable

As of September 30,

(Amounts in thousands)

**Intra-governmental Payables:**  
**Non-Federal Payables (to the Public):**  
**Total**

|                     | 2002             |  |                     | 2001  |
|---------------------|------------------|--|---------------------|-------|
|                     | Accounts Payable | Interest, Penalties, and Administrative Fees | Total               | Total |
| \$ 1,124,733        | N/A              | \$ 1,124,733                                 | \$ 740,585          |       |
| \$ 6,206,967        | \$ 0             | \$ 6,206,967                                 | \$ 4,180,417        |       |
| <b>\$ 7,331,700</b> | <b>\$ 0</b>      | <b>\$ 7,331,700</b>                          | <b>\$ 4,921,002</b> |       |

### Other Information

Intra-governmental Accounts Payable consists of amounts owed to other federal agencies for goods or services ordered and received but not yet paid. Interest, penalties, and administrative fees are not applicable to intra-governmental payables. Non-Federal Payables (to the Public) are payments to nonfederal governmental entities.

#### *Other Information Related to Accounts Payable*

**Fluctuations.** The increase of \$384.1 million in intra-governmental payables is due to the accrual of more payables in FY 02 than FY 01 to agree with seller data based on elimination entries.

The public accounts payable increase is the result of obligation increases of \$11.8 billion in direct and \$2.5 billion in reimbursable obligations incurred.

#### *Relevant Information for Comprehension*

**Intra-governmental Eliminations.** For the majority of buyer-side transactions, the Air Force feeder and DFAS accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Air Force was unable to reconcile intragovernmental accounts payable balances with its trading partners. The DoD and Air Force intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

The DoD summary level seller accounts receivables were compared to the Air Force accounts payable. An adjustment was posted to the Air Force accounts payable based on the comparison with the accounts receivable of the DoD components providing goods or services to the Air Force. Positive differences were treated as unrecognized accounts payable and in the case of the Air Force, accounts payable were adjusted upwards in the amount of \$1.6 billion.

The DoD and Air Force intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

#### *Note Reference*

See Note Disclosure 1.G, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing accounting for Intragovernmental Activities.

## Note 13. Debt

| As of September 30,<br>(Amounts in thousands) | 2002                 |                   |                   | 2001              |
|---|----------------------|-------------------|-------------------|-------------------|
|   | Beginning<br>Balance | Net<br>Borrowings | Ending<br>Balance | Ending<br>Balance |
| <b>Agency Debt:</b>                           |                      |                   |                   |                   |
| Debt to Other Federal Agencies                | 108                  | 26                | 134               | 108               |
| <b>Total Debt:</b>                            | <b>\$ 108</b>        | <b>\$ 26</b>      | <b>\$ 134</b>     | <b>\$ 108</b>     |
| <b>Classification of Debt:</b>                |                      |                   |                   |                   |
| Intragovernmental Total Debt                  |                      |                   | <b>\$ 134</b>     | <b>\$ 108</b>     |

### Other Information

#### *Other Information Related to Debt*

**Relevant Information for Comprehension.** Debt—The Intra-governmental debt consists of interest, penalties, and administrative fees and results from payments made out of the DoD Education Benefits Fund. Payments to Post-Vietnam Era Voluntary and Involuntary Separates are made in advance of contributions from the services. The DoD Board of Actuaries has determined that the services must pay the accumulated interest on this unfunded liability. The increase is due to the correction of actuarial estimate for the FY 2001 amount supplied to Air Force.

#### Note Reference

See Note Disclosure 1.G, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing accounting for Intragovernmental Activities, Public Debt.

## Note 14. Environmental Liabilities and Disposal Liabilities

| As of September 30,<br>(Amounts in thousands)           | 2002                 |                         |                     | 2001                |
|---|----------------------|-------------------------|---------------------|---------------------|
|   | Current<br>Liability | Noncurrent<br>Liability | Total               | Total               |
| <b>Environmental Liabilities:</b>                       |                      |                         |                     |                     |
| <b>Non-Federal:</b>                                     |                      |                         |                     |                     |
| Accrued Environmental Restoration (DERP funded) Costs:  |                      |                         |                     |                     |
| Active Installations—Environmental Restoration (ER)     | \$ 389,773           | \$ 4,847,656            | \$ 5,237,429        | \$ 5,038,754        |
| Active Installations—ER for Closed Ranges               | 0                    | 705,700                 | 705,700             | 0                   |
| Other Accrued Environmental Costs (Non-DERP funds)      |                      |                         |                     |                     |
| Active Installations—Environmental Corrective Action    | 0                    | 175,043                 | 175,043             | 246,189             |
| Active Installations—Environmental Closure Requirements | 0                    | 65,182                  | 65,182              | 61,506              |
| Base Realignment and Closure (BRAC)                     |                      |                         |                     |                     |
| BRAC Installations—Environmental Restoration (ER)       | 122,009              | 1,961,715               | 2,083,724           | 1,587,506           |
| BRAC Installations—Environmental Corrective Action      | 2,851                | 133,347                 | 136,198             | 0                   |
| Other   | 0                    | 0                       | 0                   | 329,627             |
| Environmental Disposal for Weapons Systems Programs     |                      |                         |                     |                     |
| Other National Defense Weapons Systems                  | 0                    | 51,288                  | 51,288              | 49,360              |
| <b>Total Non-Federal Environmental Liabilities:</b>     | <b>\$ 514,633</b>    | <b>\$ 7,939,931</b>     | <b>\$ 8,454,564</b> | <b>\$ 7,312,942</b> |

### Other Information Related to Environmental Liabilities

#### Relevant Information for Comprehension

**Accrued Environmental Restoration (DERP) Active Installations—Environmental Restoration (ER).** The total liability of \$5.2 billion for environmental restoration on active installations increased \$198.7 million during FY 2002, or 3.94%. This change basically reflects an inflationary increase. The liability increase from new sites and areas of concern added during the fiscal year totaled \$56.4 million, or 28.4% of the increase in total liabilities. The amount expensed during FY 2002 amounted to \$386.4 million, within 1% of the current liability estimate for the year. Finally, the change in liability estimates during FY 2002 for sites reported at the end of FY 2001 totaled \$528.6 million or approximately 10% for those sites. The increase in estimated liability in part represents inflation, however, the bulk of the changes represents better information concerning the site conditions and restoration requirements.

In both cases the changes are due to the addition of new sites discovered during the fiscal year, inflationary expectations contained in estimates and changes in plans due to better information gained in the process of cleaning up existing sites. There are no changes due to adjustments for prior periods.

During FY 2002, the Air Force achieved only slightly over half of its projected site investigations primarily due to regulatory delays. Because of these delays, the increase in the estimated liability for environmental restoration is smaller than expected.

Total costs for environmental restoration and non-operational ranges are included in the estimates. Both direct and indirect costs are captured because the programs are accounted for separately.

**Accrued Environmental Restoration (DERP) Active Installations—Environmental Restoration (ER) for Closed Ranges.** The Air Force conducted an inventory of ranges for the Defense Environmental Restoration Program (DERP). Based on that inventory the Air Force identified 241 sites with an established liability of \$705.7 million. Currently no appropriation exists for these cleanup actions. There is no expectation expenditures will be incurred before FY 2004 at the earliest. Is expected this liability will increase as the Air Force continues to refine the inventory and expand investigation of potential sites.

**Other Accrued Environmental Costs (Non-DERP) Active Installations—Environmental Corrective Action.** The total Non-DERP Corrective Actions liability amount of \$175.0 million decreased about \$71.1 million (13%), during the fiscal year. This net change resulted from an increase of almost \$12 million in the estimated cost of sites identified during fiscal year 2002, a decrease of about \$687 thousand that was expensed during the year, and a decline of \$82.4 million in the cost estimate for sites that were identified at September 30, 2001. The reduction almost totally is due to revaluations for solid waste management units at one installation. A single reduction of about 70 million in estimated liability resulted from discovery that initially suspected contamination was substantially less than indicated through preliminary examination of the sites.

The estimates of Non-DERP Correct Actions liabilities were established in a manner consistent with the prior year.

**Other Accrued Environmental Costs (Non-DERP) Active Installations—Environmental Closure Requirements.** The total liability of \$65.2 million reflects the second year the Air Force has reported environmental disposal liabilities for Resource Conservation and Recovery Act (RCRA) regulated facilities. Facilities reported include landfills; treatment, storage and disposal facilities (TSDFs) for hazardous waste; and underground storage tanks (USTs). The total disposal liability increased \$3.6 million, almost 6% from September 30, 2001 to September 30, 2002. The change is significantly lower than was expected; however, the individual areas showed greater percentage changes. Landfill liabilities increased about \$4.5 million (37%) and USTs increased \$1.3 million (17%), while the TSDF liability declined \$2.1 million (5%). The change in landfill liability reflects a greater number of landfills reported as of September 30, 2002 than as of September 30, 2001. Changes in TSDFs and USTs reflect changes in cost estimates, largely due to the increased use of the Remedial Action Cost Engineering Requirements (RACER) system, which is validated for Air Force estimates and now used in all cost estimates where there is not an actual bid and/or contract.

Landfill liabilities are based on the proportion of the landfill used as of September 30, 2002 and include the cost of capping the fill, as well as 30 years of monitoring as required by Federal regulations. The total liability for closing landfills, without disclosure based on use, would be \$80 million as of September 30, 2002.

TSDF closure liabilities are based on an assumed useful life of 30 years and two years of monitoring with closure costs estimated for a "clean close". "Clean close" is defined in the Federal regulations. The total closure liability for TSDF's would be \$226.1 million if not disclosed on an annual basis.

UST closure liabilities are based on an assumed life of 20 years and two years of monitoring with closure costs estimated for a "clean close". The total closure liability for UST's would be \$75.3 million if not recognized on an annual basis.

Therefore, total closure liabilities on a current basis, without disclosure over time, would amount to \$381.4 million as of September 30, 2002.

The Air Force's reporting of landfill closure liability is not in conformance with the accounting standard. The standard would recognize all future costs regardless of timing. The Air Force recognizes only the initial closure. A landfill cap typically requires replacement every 20 to 40 years. An estimation of current costs based on all future costs, regardless of timing, would result in an infinite liability. This appears meaningless and not the intent of the standard. Therefore, the Air Force reports only the cost of the initial cap required to close a landfill. The Air Force believes this reporting is more meaningful. The present value of the future caps, those after the initial cap, would be negligible.

The accounting standard requires full cost be recognized for closure liability. Closure liabilities recognized by the Air Force cover only direct costs. There is no reliable cost accounting system to determine indirect closure costs. This is not considered material in the cost estimates because indirect costs incurred would not happen for at least 20 years and in many cases far beyond 20 years. The present value of such costs would be negligible in recognition of the closure liabilities.

**Base Realignment and Closure (BRAC) Installations—Environmental Restoration (ER)/Environmental Corrective Action.**

For FY 2002, the Air Force has estimated and reported its BRAC environmental future liabilities. The Air Force Base Conversion Agency (AFBCA) estimates a \$2.1 billion total environmental liability as of September 30, 2002. This amount includes all cleanup requirements to meet regulatory requirements and to transfer property (including the new radiological issues at McClellan and program increases at Chanute). However, this amount does not include potential future cost associated with long-term landfill management for which the Air Force may never be absolved of responsibility due to State laws.

The total BRAC environmental restoration of \$2.1 billion increased by \$496.2 million. This relates to \$259.1 million from obligations not previously reported and \$237.1 million from a change in the method of calculating in the Remedial Action Cost Engineering and Requirements System (RACER). The amounts reported on line 1.B.3.d., Other, in FY 01 was reported on the detailed line 1.B.3.c., BRAC Installations Environmental Corrective Action for FY 02. The FY 02 display is the proper disclosure per Air Force.

The total BRAC environmental corrective action amount of \$77.6 million reflects a decrease of \$193.4 million due to revaluations relative to policy changes.

The Air Force Base Conversion Agency (AFBCA) is currently working to identify Military Munitions Response Program (MMRP) costs. AFBCA is in the process of identifying MMRP sites based on DERP guidance, but have not yet been able to separate costs. Therefore, as of September 30, 2002 we are unable to reasonably estimate MMRP costs separate from our ER and Closure costs.

**Environmental Disposal for Weapons Systems Programs—Other National Defense Weapons Systems.** The September 30, 2002 environmental disposal liability of \$51.3 million in Other National Defense Weapon Systems includes strategic, tactical, active, inactive missiles and missile motors. The Air Force identified \$48.6 million in environmental liability for the disposal of Minuteman III and Peacekeeper strategic, inactive missile motors. The estimated environmental disposal liability for tactical, active, inactive missiles and missile motors is \$2.7 million.

**Note Reference**

See Note Disclosure 1.S, Significant Accounting Policies, for additional discussion on financial reporting requirements and the DoD policies governing accounting for Contingencies and Other Liabilities.

## Note 15.A. Other Liabilities

| As of September 30,<br>(Amounts in thousands)     | 2002                 |                         |                     | 2001                |
|---|----------------------|-------------------------|---------------------|---------------------|
|   | Current<br>Liability | Noncurrent<br>Liability | Total               | Total               |
| <b>Intra-governmental:</b>                        |                      |                         |                     |                     |
| Advances from Others                              | \$ 213,843           | \$ 0                    | \$ 213,843          | \$ 128,053          |
| Deposit Funds and Suspense Account Liabilities    | 15,596               | 0                       | 15,596              | 1,265               |
| Resources Payable to Treasury                     | 1,006,978            | 0                       | 1,006,978           | 604,501             |
| Disbursing Officer Cash                           | 265,295              | 0                       | 265,295             | 612,013             |
| Accounts Payable—Cancelled Appropriations         | 0                    | 0                       | 0                   | 131,234             |
| Judgement Fund Liabilities                        | 98,800               | 204,800                 | 303,600             | 417,309             |
| FECA Reimbursement to the Department of Labor     | 134,106              | 171,569                 | 305,675             | 299,296             |
| Other Liabilities                                 | 68,100               | 0                       | 68,100              | 63,497              |
| <b>Total Intra-governmental Other Liabilities</b> | <b>\$ 1,802,718</b>  | <b>\$ 376,369</b>       | <b>\$ 2,179,087</b> | <b>\$ 2,257,168</b> |
| <b>Non-Federal:</b>                               |                      |                         |                     |                     |
| Accrued Funded Payroll and Benefits               | \$ 1,166,899         | \$ 0                    | \$ 1,166,899        | \$ 994,520          |
| Advances from Others                              | 93,234               | 0                       | 93,234              | 58,444              |
| Deposit Funds and Suspense Accounts               | 39,154               | 0                       | 39,154              | 7,128               |
| Temporary Early Retirement Authority              | 6,800                | 10,100                  | 16,900              | 36,000              |
| Nonenvironmental Disposal Liabilities:            |                      |                         |                     |                     |
| Excess/Obsolete Structures                        | 47,573               | 15,008                  | 62,581              | 93,000              |
| Accounts Payable—Cancelled Appropriations         | 399,513              | 53,406                  | 452,919             | 80,667              |
| Accrued Unfunded Annual Leave                     | 1,674,276            | 0                       | 1,674,276           | 1,745,592           |
| Capital Lease Liability                           | 30,736               | 248,682                 | 279,418             | 462,196             |
| Other Liabilities                                 | 530                  | 201,277                 | 201,807             | 641,432             |
| <b>Total Non-Federal Other Liabilities</b>        | <b>\$ 3,458,715</b>  | <b>\$ 528,473</b>       | <b>\$ 3,987,188</b> | <b>\$ 4,118,979</b> |
| <b>Total Other Liabilities:</b>                   | <b>\$ 5,261,433</b>  | <b>\$ 904,842</b>       | <b>\$ 6,166,275</b> | <b>\$ 6,376,147</b> |

### Other Information Pertaining to Other Liabilities

#### Intra-governmental

The increase in advances from others is due to the timing of the receipt and execution of orders which causes variations in the end of year balances.

The change in deposit funds and suspense account liabilities are related to timing differences and collection due dates and the disposition of these items.

Judgement Fund liabilities of \$303.6 million result from contractor claims under the Contracts Disputes Act on Air Force contracts that have been adjudicated by a court or a board in favor of the contractor. Initially, the Department of the Treasury pays the monetary awards to the contractor. However, subsequently the Air Force must reimburse the Treasury's Judgement Fund for the amount that was paid to the contractors.

The difference in Judgement Fund liabilities is due to Treasury billing the Air Force \$17.6 million in new debts during FY 2002. In addition, the Air Force paid out \$131.3 million during FY 2002.

The increase in Resources Payable to Treasury is due to an increase in closed year receivables reported from contractor debts. Canceled accounts receivables are deposited into a Treasury miscellaneous receipt account when collected.

The amounts reported as Accounts Payable—Cancelled Appropriations are considered unreliable. No seller data was matched to Air Force closed account payables. Therefore, all cancelled accounts payables reported as public. Closed account balances need to be validated. We see very little clean up or changes in these balances. We suspect that most of the liabilities in cancelled accounts are not valid and should be de-obligated. This issue is currently being worked.

#### *Other Liabilities*

The amount of \$68.1 million represents \$46.0 million of the government contribution of employee benefits and \$22.1 million in unemployment compensation liabilities.

#### *Non-Federal*

The increase in advances on from others is due to the timing of the receipt and execution of orders that causes variations in the end of year balances.

The change in deposit funds and suspense account liabilities are related to timing differences and collection due dates and the disposition of these items.

Accounts Payable-Canceled Appropriations of \$452.9 million is from closed years. Although closed appropriation liability balances are unreliable, it is possible this liability will be liquidated using current year funding at the time of liquidation.

The decrease in Temporary Early Retirement Authority liabilities is due to the termination of the program in fiscal year 2002.

Accrued Funded Payroll and Benefits—The increase is due to the accrual of the military payroll.

#### *Nonenvironmental Disposal Liabilities*

The Air Force reduced its disposal liability by \$45.4 million throughout FY 2002, in accordance with disposal plans directed by Defense Reform Initiative Directive No. 36, dated May 5, 1998, which equates to a 48% reduction in the disposal liability stated in the FY 2001 Audited Financial Statements (AFS). Also, the Family Housing Master Plan was adjusted in FY 2002; it identified \$15.0 million of excess housing units to be disposed of in future years (Noncurrent). The FY 2002 AFS liability is \$62.6 million, of which \$47.6 million is a current liability, and \$15.0 million is a noncurrent liability.

The Active and Inactive Missile Systems maximum nonenvironmental disposal liability increases are due to changes in program direction. The program previously did not have an approved Demilitarization Plan, and therefore assets were identified for consumption. Disposition Plans and Demilitarization Plans are now in place with goals to reduce inventory by 100% over the next four to five years. Inputs based on these plans resulted in an increase to the potential maximum nonenvironmental disposal liability.

#### *Other Liabilities*

The amount of \$201.8 million represents legal contingencies of \$201.3 million and accrued interest liability of \$.5 million. The decrease of \$435.8 million in legal contingencies is due to the change in the number of claims pending and settlements.

The recorded estimated probable liability amount of \$29.4 million has been included in the accompanying financial statements for open contractor claims greater than \$100,000 and neither under appeal nor in litigation. In addition to

the contractor claims under appeal and the open contractor claims for an amount greater than \$100,000, the Air Force was party to numerous other contractor claims in amounts less than \$100,000 per claim. These claims are a routine part of the contracting business and are typically resolved through mutual agreement between the contracting officer and the contractor. Because of the routine nature of these claims, no requirement exists for a consolidated tracking mechanism to record the amount of each claim, the number of open claims, or the probability of the claim being settled in favor of the claimant. The potential liability arising from these claims in aggregate would not materially affect the operations or financial condition of the Air Force. A reasonably possible liability is estimated at \$6.5 million and is not included in the reported amount.

The total estimated probable liability for claims and litigations against the Air Force handled by the Civil Law and Litigation Directorate, as of September 30, 2002, was valued at \$72.2 million and has been included in the accompanying financial statements. As of September 30, 2002, the Air Force was party to 3,790 claims and litigation actions. This liability dollar amount recorded in the financial statements is an estimate based on the weighted average payout rate for the previous three years. A reasonably possible liability is estimated at \$271.5 million and is not included in the reported amount. Neither past payments nor the current contingent liability estimate provides a basis for accurately projecting the results of any individual law suit or claim. It is uncertain that claims will ever accrue to the Air Force. In addition, many claims and lawsuits, even if successful, will not be paid out of Air Force Funds. Rather, judgements over \$100,000 are ordinarily paid from the Judgement Fund, not from Air Force accounts even though claims were the result of Air Force operations. In many cases involving attorney fees, the amounts are not known until the last appeal is concluded.

As of September 30, 2002, the Air Force was a party to 100 contract appeals before the Armed Services Board of Contract Appeals (ASBCA). The probable amount of loss from contractor claims of \$99.6 million has been included in the financial statements. The contractor claims involve unique circumstances which are considered by the ASBCA in formulating decisions on the cases. Such claims are funded primarily from Air Force appropriations. A reasonably possible liability is estimated at \$7.6 million and is not included in the reported amount.

#### *Other Disclosures*

The Legal Representation Letter describes contingent liabilities from cases that may or may not be paid from the Treasury's Claims, Judgement, and Relief Acts Fund depending on the final outcome. Since Air Force appropriations do not necessarily pay for all judgements or settlements for cases and the probability of payments is unknown, these contingencies from pending cases are not reflected in the financial statement.

#### *Intragovernmental Reconciliation for Fiduciary Transactions with Department of Labor (DOL) and the Office of Personnel Management (OPM)*

With respect to the major fiduciary balances with the OPM and the DOL, the Air Force was able to reconcile with the OPM and the DOL. During these reconciliations immaterial differences were identified.

## Note 15.B. Capital Lease Liability

| As of September 30,<br>(Amounts in Thousands)                        | 2002                  |               |             |                   |                   | 2001       |  |
|--|-----------------------|---------------|-------------|-------------------|-------------------|------------|--|
|  | Asset Category        |               |             |                   |                   |            |  |
|  | Land and<br>Buildings | Equipment     | Other       | Total             | Total             |            |  |
| <b>Future Payments Due:</b>  |                       |               |             |                   |                   |            |  |
| 2003   | \$ 45,433             | \$ 167        | \$ 0        | \$ 45,600         | \$ 45,683         |            |  |
| 2004   | 45,433                | 167           | 0           | 45,600            | 45,600            |            |  |
| 2005   | 45,433                | 0             | 0           | 45,433            | 45,600            |            |  |
| 2006   | 45,152                | 0             | 0           | 45,152            | 45,433            |            |  |
| 2007   | 42,056                | 0             | 0           | 42,056            | 45,152            |            |  |
| After 5 Years  | 192,757               | 0             | 0           | 192,757           | 234,813           |            |  |
| Total Future Lease Payments Due                                      | \$ 416,264            | \$ 334        | \$ 0        | \$ 416,598        | \$ 462,281        |            |  |
| Less: Imputed Interest Executory Costs                               | 137,152               | 28            | 0           | 137,180           | 163,857           |            |  |
| <b>Net Capital Lease Liability</b>                                   | <b>\$ 279,112</b>     | <b>\$ 306</b> | <b>\$ 0</b> | <b>\$ 279,418</b> | <b>\$ 298,424</b> |            |  |
| <b>Capital Lease Liabilities Covered by Budgetary Resources:</b>     |                       |               |             |                   |                   |            |  |
|  |                       |               |             |                   | \$ 323,439        | \$ 354,564 |  |
| <b>Capital Lease Liabilities Not Covered by Budgetary Resources:</b> |                       |               |             |                   |                   |            |  |
|  |                       |               |             |                   | \$ 93,159         | \$ 107,132 |  |

### Other Information

#### *Relevant Information for Comprehension*

The Air Force is the leasee in twelve capital leases. Eleven are for military family housing and the twelfth is for a piece of medical equipment. Six leases were entered into prior to FY 1992 and are funded on an annual basis.

#### *Note Reference*

See Note Disclosure 1.Q, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Leases.

## Note 16. Commitments and Contingencies

#### **Disclosures Related to Commitments and Contingencies:**

#### *Relevant Information for Comprehension*

The Commitments and Contingencies consist of the following reasonably possible liabilities

#### **Contractual Actions:**

|   |                 |
|---|-----------------|
| Contractor Claims   | \$6.5 million   |
| Appeals before Armed Services Board of Contract Appeals (ASBCA) | \$7.6 million   |
|   | \$14.1 million  |
| Claims and Litigation from Civil Law                            | \$271.5 million |
| Total   | \$285.6 million |

#### *Note Reference*

See Note Disclosure 1.S, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.

## Note 17. Military Retirement Benefits and Other Employment Related Actuarial Liabilities

| As of September 30,<br>(Amounts in Thousands) | 2002   |                           |  |                              | 2001                         |
|---|--|---------------------------|--|------------------------------|------------------------------|
|   | Actuarial Present Value of Projected Plan Benefits | Assumed Interest Rate (%) | (Less: Assets Available to Pay Benefits) | Unfunded Actuarial Liability | Unfunded Actuarial Liability |
| FECA  | \$ 1,211,045                                       | \$ 0                      | \$ 1,211,045                             | \$ 1,269,811                 |                              |

### Other Information Pertaining to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities

#### *Military Retirement Health Benefits*

**Assumptions.** Health benefits are funded centrally at the DoD level. As such the portion of the health benefits actuarial liability that is applicable to the Air Force is reported only on the DoD Agency-wide financial statements.

#### *FECA*

**Actuarial Cost Method Used.** The Air Force's actuarial liability for worker's compensation benefits is developed by the DoL and provided to the Air Force at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments have been discounted to present value using the OMB economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

**FY 2002**  
5.20% in Year 1  
5.20% in Year 2  
and thereafter

To provide more specifically for the effects of inflation on the liability for FWC benefits, wage inflation factors, cost of living adjustments (COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. These factors were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

| CBY   | COLA  | CPIM  |
|-------|-------|-------|
| 2003  | 1.80% | 4.31% |
| 2004  | 2.67% | 4.01% |
| 2005  | 2.40% | 4.01% |
| 2006+ | 2.40% | 4.01% |

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

## Note 18. Unexpended Appropriations

| As of September 30,                    | 2002                 | 2001                 |
|--|----------------------|----------------------|
| (Amounts in Thousands)                 |                      |                      |
| <b>Unexpended Appropriations:</b>      |                      |                      |
|  |                      |                      |
| Unobligated, Available                 | \$ 5,272,785         | \$ 6,370,403         |
| Unobligated, Unavailable               | 1,185,935            | 832,884              |
| Unexpended Obligations                 | 33,085,130           | 31,803,502           |
| <b>Total Unexpended Appropriations</b> | <b>\$ 39,543,850</b> | <b>\$ 39,006,789</b> |

### Other Information Pertaining to Unexpended Appropriations

Unexpended obligations reported as a component of Unexpended Appropriations include both Undelivered Orders-Unpaid and Undelivered Orders-Paid only for direct appropriated funds. This amount is distinct from Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received line of the Statement of Financing, which includes the change during the fiscal year in unexpended obligations against budget authority from all sources.

## Note 19.A. General Disclosures Related to the Statement of Net Cost

### Disclosures Related to the Statement of Net Cost

The Consolidated Statement of Net Cost in the federal government is unique because its principles are driven on understanding the net cost of programs and/or organizations that the federal government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity.

The amounts presented in the Statement of Net Cost (SoNC) are based on obligations and disbursements and therefore may not in all cases report actual accrued costs. The Air Force generally records transactions on a cash basis and not an accrual basis as is required by the generally accepted accounting principles. Therefore, the Air Force systems do not capture actual costs. As such, information presented in the SoNC is based on budgetary obligations, disbursements and collection transactions, as well as non-financial feeder systems; then adjusted to record known accruals for major items such as payroll expenses, accounts payable, and environmental liabilities.

The abnormal intra-governmental net costs on the Consolidating Statement of Net Cost for Research, Development, Test & Evaluation Program is attributable to intragovernmental revenue per Air Force seller side records being higher than intragovernmental expenses in Air Force accounting records. This situation existed prior to adjustments for other seller side data. Further analysis of Air Force accounting data is required.

The abnormal intra-governmental net costs on the Consolidating Statement of Net Cost for the Air Force Other Program is attributable to seller side allocations of intragovernmental revenue that required a reclassification of AF pub-

lic expenses to government. This reclassification results in public revenue in excess of gross costs with the public. This abnormal balance was discovered after seller side data was finalized.

## Note 19.B. Imputed Expenses

| As of September 30,                         | 2002              | 2001              |
|---|-------------------|-------------------|
| (Amount in thousands)                       |                   |                   |
| <b>Civilian (e.g.,CSRS/FERS) Retirement</b> | \$ 193,271        | \$ 204,481        |
| <b>Civilian Health</b>                      | 340,583           | 365,643           |
| <b>Civilian Life Insurance</b>              | 1,184             | 1,153             |
| <b>Judgment Fund</b>                        | 62,038            | 15,587            |
| <b>Total Imputed Expenses</b>               | <u>\$ 597,076</u> | <u>\$ 586,864</u> |

## Note 19.C. Exchange Revenue

### Disclosures Related to the Exchange Revenue

Exchange Revenue arises when a Government entity provides goods and services to the public or to another Government for a price, "earned revenue." Exchange revenue includes most user charges other than taxes, i.e., regulatory user charges.

Goods and services provided through reimbursable programs to the public or another U.S. Government entity (intra-Air Force, intra-DoD or other federal entity) are provided at cost. Such reimbursable sales are reported as earned revenues. Costs are equal to the amount reported as earned. Since FY 2000 sales to the Foreign Military Trust Fund and related cost of sales have been reclassified as non-federal, transactions with the public, rather than intra-governmental transactions as in years prior.

## Note 19.D. Stewardship Assets

### Disclosures Related to Stewardship Assets

Stewardship assets include Heritage Assets, Stewardship Land, Non-Federal Physical Property, and Investments in Research and Development. The current year cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets; costs of acquiring stewardship land; and costs to prepare stewardship land for its intended use are required to be recognized and disclosed in the SoNC or the notes if occurring. Such costs, if any, are not separately identifiable and are not believed to be material.

## Note 19.E. Intra-governmental Revenue and Expense

### Disclosures Related to Intra-governmental Revenue and Expense

The Air Force's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Air Force was unable to reconcile intragovernmental revenue balances with its trading partners. The Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intra-govern-

mental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

The Air Force's operating expenses were adjusted based on a comparison between the Air Force's accounts payable and the DoD summary level seller accounts receivables. An adjustment was posted to accounts payable and operating expenses to reflect unrecognized accounts payable and operating expenses. The operating expenses of the Air Force were adjusted upwards in the amount of \$985.1 million.

## Note 19.F. Suborganization Program Costs

The Air Force identifies programs based on the nine major appropriation groups provided by Congress. The DoD is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information requested by Statement of Federal Financial Accounting Standard (SFFAS) No. 4 with the need to keep the financial statements from becoming overly voluminous.

Until costing allocating processes and expanded intra-Air Force eliminating capabilities are incorporated in the accounting processes, the usefulness of further suborganization-reported (major commands) net cost is limited. It is for this reason that no additional statement of suborganization costs at lower levels are presented with these statements.

## Note 20. Disclosures Related to the Statement of Changes in Net Position

| As of September 30,   | Cumulative Results<br>of Operations<br>2002 | Unexpended<br>Appropriations<br>2002 | Cumulative Results of<br>Operations<br>2001 | Unexpended<br>Appropriations<br>2001 |
|---|---|--------------------------------------|---|--------------------------------------|
| (Amounts in thousands)  |   |                                      |   |                                      |
| <b>Prior Period Adjustments Increases<br/>(Decreases) to Net Position</b> |   |                                      |   |                                      |
| <b>Beginning Balance:</b>   |   |                                      |   |                                      |
| Changes in Accounting Standards   | \$ 0  | \$ 0                                 | \$ 37,561,528                               | \$ 0                                 |
| Errors and Omissions in Prior Year Accounting Reports                     | (31,869,730)                                | 0                                    | 1,443,798                                   | 0                                    |
| Other Prior Period Adjustments  | 0   | 0                                    | 0   | 0                                    |
| <b>Total Prior Period Adjustments</b>                                     | <b>\$ (31,869,730)</b>                      | <b>\$ 0</b>                          | <b>\$ 39,005,326</b>                        | <b>\$ 0</b>                          |
| <b>Imputed Financing:</b>   |   |                                      |   |                                      |
| Civilian CSRS/FERS Retirement   | \$ 193,271                                  | \$ 0                                 | \$ 204,481                                  | \$ 0                                 |
| Civilian Health   | 340,583                                     | 0                                    | 365,643                                     | 0                                    |
| Civilian Life Insurance   | 1,184                                       | 0                                    | 1,153                                       | 0                                    |
| Judgment Fund   | 62,038                                      | 0                                    | 15,587                                      | 0                                    |
| <b>Total Imputed Financing</b>  | <b>\$ 597,076</b>                           | <b>\$ 0</b>                          | <b>\$ 586,864</b>                           | <b>\$ 0</b>                          |

### Other Information

#### Relevant Information for Comprehension

The FY 2002 "Errors and Omissions in Prior Years Accounting Reports" line is the result of a DoDIG directed Prior Period Adjustment made to remove the \$31,869.7 million of OM&S carried on the unrestated FY 2001 Balance Sheet. This adjustment removes retail and wholesale guided and tactical missiles, missile motors, aircraft engines and elec-

tronic pods previously included as OM&S on the FY 2001 Balance Sheet. These items are now considered as Non-reportable National Defense Property, Plant and Equipment. The previous FY 2001 inclusion of balances for these items in the Balance Sheet as OM&S was directed by OSD.

The restatement of FY 2001 numbers brings the Air Force's report in line with the FY 2001 Government wide financial statements that did not include amounts for these types of items.

It is Treasury, DoD and DFAS policy that only prior period adjustments of a material and infrequent nature be shown in the financial statements. Accordingly, Air Force has included no other amounts reported through the accounting process as arising from prior period adjustment of errors and omissions in the accompanying financial statements as prior period adjustments. Such amounts have been included in current year operations reported amounts.

The increase in donations reflects approximately \$11.5 million from the Air Force Museum Foundation to the Air Force Gift Fund for the purpose of funding construction of a third building at the Air Force Museum located at the Wright-Patterson Air Force Base.

The increase in FY 2002 Imputing Financing for Judgement Fund is due to the nature, size, dollar amount, and number of previously pending claims settled, that resulted in payments by the Treasury's Judgement Fund on behalf of the Air Force.

## Note 21.A. Disclosures Related to the Statement of Budgetary Resources

| As of September 30,  | 2002          | 2001          |
|--|---------------|---------------|
| (Amounts in thousands)   |               |               |
| <b>Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period</b> | \$ 34,775,371 | \$ 32,552,586 |

### Other Information

#### *Other Information Related to the Statement of Budgetary Resources*

In Fiscal Year 2002, the following two enhancements were made to the SBR to facilitate the reconciliation of information between the SBR, the budget execution reports (SF133) and the Budget of the United States Government:

**Separate Column for Non-budgetary Credit Program Financing Accounts.** This change allows for a clear distinction between budgetary and non-budgetary credit program financing account information. Non-budgetary credit financing accounts are reported separately from the budgetary totals in the Budget of the United States Government. Separate reporting on the Statement of Budgetary Resources enhances the reconciliation of the two sets of information.

Offsetting Receipts are introduced as a new line item in the SBR. These receipts are collections that are credited to the general fund, special fund or trust fund receipt accounts. In addition they represent offsetting receipts distributed to the Air Force. Offsetting receipts offset budget authority and outlays at the agency level in the Budget of the United States Government. Offsetting receipts must be included in the Statement of Budgetary Resources to reconcile it to information in the Budget of the United States Government.

**Offsetting Receipts Line.** Offsetting Receipts are introduced as a new line item in the Statement of Budgetary Resources. These receipts are collections that are credited to the general fund, special fund, or trust fund receipt accounts. In addition they represent offsetting receipts distributed to the Air Force. Offsetting receipts offset budget authority and outlays

at the agency level in the Budget of United States Government. Offsetting receipts must be included in the Statement of Budgetary Resources to reconcile it to information in the Budget of the United States Government.

The amount of direct obligations incurred and apportioned under category A is \$51.3 billion, category B is \$49.3 billion, and exempt is \$.02 billion. For reimbursable obligations incurred and apportioned category A is \$4.8 billion, category B is \$3.03 billion and exempt is \$.01 billion.

Unexpended Obligations presented in the Statement of Budgetary Resources (SBR) includes Unexpended Obligations for both direct and reimbursable funds. The Department has not fully implemented the U.S. Standard General Ledger (USSGL) in all operational accounting systems.

The statement does not include any amounts for which the Department of Treasury is willing to accept corrections to canceled appropriation amounts, in accordance with SFFAS Number 1. Also, negative budgetary resources of \$120.5 million (relating to Offsetting Receipts of Accounts shown on the Report on Budget Execution, or SF 133) are not included in the SBR (combined, combining or disaggregated).

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in the Adjustments line on the SBR), are not included in Spending Authority from Offsetting Collections and Adjustments line of the SBR or the Spending Authority for Offsetting Collections and Adjustments line of the Statement of Financing.

Due to accounting system deficiencies, the proper amount of intra-agency eliminations for this statement cannot be determined.

Accounting systems currently do not provide or capture data needed for obligations incurred and recoveries of prior year obligations in accordance with OMB Circular A-34, "Instructions on Budget Execution" requirements. Although DFAS Denver Center developed an alternative methodology to calculate these items, the auditors and DFAS Denver Center concur this methodology also distorts the obligation figures. As a result, the amount of distortion cannot be reliably determined, and may or may not be material.

Disaggregated SBR are included in the Required Supplementary Information section of the statements. The abnormal balance on the Unobligated Balances – Not Available in the Procurement grouping relates to the cancellation of reimbursable authority at fiscal year end. The abnormal balance on the Military Personnel grouping relates to the accrual of A/P driven by seller-side data.

## Note 21.B. Disclosures Related to Problem Disbursements, In-transit Disbursements and Suspense/Budget Clearing Accounts

| As of September 30,                        | Sep-00              | Sep-01              | Sep-02              | (Decrease)/Increase from 2001 to 2002 |
|--|---------------------|---------------------|---------------------|---------------------------------------|
| (Amounts in thousands)                     |                     |                     |                     |                                       |
| <b>Total Problem Disbursements</b>         |                     |                     |                     |                                       |
| Absolute Unmatched Disbursements           |                     |                     |                     |                                       |
| Absolute Unmatched Disbursements           | \$ 35,143           | \$ 23,300           | \$ 11,685           | \$ (11,615)                           |
| Negative Unliquidated Obligations          | 60,839              | 22,722              | 10,232              | (12,490)                              |
| <b>Total In-transit Disbursements, Net</b> | <b>\$ 1,283,127</b> | <b>\$ 2,271,948</b> | <b>\$ 1,320,627</b> | <b>\$ (951,321)</b>                   |

### Other Information Related to Problem Disbursements and In-transit Disbursement

The Air Force has \$1.3 billion in problem disbursements and in-transit disbursements that represent disbursements of Air Force funds that have been reported by a disbursing station to the Department of the Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursements. For the most part, these payments have been made using available funds and based on valid receiving reports for goods and services delivered under valid contracts. The problem disbursements and in-transit disbursements arise when the various contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the disbursement transactions in all applicable accounting systems.

DFAS has efforts underway to improve the systems and to resolve all previous problem disbursements and to process all in-transit disbursements. As of September 30, 2002, these efforts resulted in a \$24 million decrease in reported problem disbursements. In-transits decreased \$951 million since September 2001. The amount over 180 days old for NULOs is \$1 million and for in-transits is \$13 million. The absolute value of in-transit disbursements is \$2.5 billion.

### Suspense/Budget Clearing Accounts, Net

| Account | Sep-00    | Sep-01    | Sep-02     | (Decrease)/Increase |
|---------|-----------|-----------|------------|---------------------|
| F3875   | \$ 17,953 | \$ 30,874 | \$ 398,084 | \$ 367,210          |
| F3880   | (611)     | 35        | (62)       | (97)                |
| F3885   | (457,259) | (477,440) | (193,678)  | 283,762             |

### Other Information Related to Suspense/Budget Clearing Accounts

The Air Force has made a concerted effort to reduce balances in the suspense and budget clearing accounts, and to establish an accurate and consistent use of these accounts. The information presented indicates the significant reductions (with the exception noted below) that the Air Force has achieved in the various suspense/budget clearing accounts.

The large increases in F3885 for FY 2000 and FY 2001 are due to numerous OPAC transactions received during the last business day of September that, by established procedure, are placed in this suspense account until they can be assigned to a valid appropriation.

On September 30 of each fiscal year, all of the uncleared suspense/budget clearing account balances are reduced to zero by transferring the balances to proper appropriation accounts using a logical methodology, such as prorating the

amounts on a percentage basis derived by comparing the disbursements in the suspense/clearing account to total disbursements.

The amounts in brackets in account F3880 represent collections.

## Note 22. Disclosures Related to the Statement of Financing

### Disclosures Related to the Statement of Financing:

The objective of the Statement of Financing (SoF) is to help users understand the difference between budgetary and net cost of operations reported. The statement provides this understanding through a comprehensive reconciliation process.

### Other Information Related to the Statement of Financing

The Statement of Financing was expanded to further articulate and detail the relationship between net obligations from budgetary accounting and net cost of operation from proprietary accounting. Some items that were reported last year as a single line were subdivided to reflect its components. Several new line items were added to separately identify and further explain the use of resources to finance net obligations or net cost of operations. This change notes key differences between the net obligations and net cost of operations. The prior year net cost computed on the prior year Statement of Financing presented as a comparative amount to the current year amount does not match the net cost presented on the prior Statement of Net Cost. This difference is the result of applying the current year account classifications used for the current year statement to prior year accounts to create a prior year statement.

#### *Intra-entity Transactions*

Intra-entity transactions have not been eliminated because the statements are presented as combined and combining statements.

Budgetary data is not in agreement with Proprietary Expenses and Asset Capitalized. This causes a difference in Net Cost between the Statement of Net Cost and the Statement of Financing. The amount on the "Resources that finance the acquisition of assets" has been adjusted as necessary to resolve differences. Differences between the budgetary and proprietary data for the Air Force are previously identified deficiency.

#### *Note Reference*

The components and amount of liabilities not covered by budgetary resources are disclosed in Note 11. Liabilities Not Covered and Covered by Budgetary Resources.

## Note 23. Disclosures Related to the Statement of Custodial Activity

Not applicable.

## Note 24.A. Other Disclosures

### Entity as Lessee—Operating Leases

#### Description of Lease Arrangements

**Category 1: Medical Equipment**—Operating leases are one year leases with four option years. Each year, facilities must specifically exercise the option to continue the lease. The operating leases that contain an option to purchase allows the government to purchase the equipment at fair market value at the end of the lease period.

**Category 2: Military Family Housing**—The figures represent operating leased facilities in the U.S. and overseas applicable to active Air Force, Air Force Reserve and Air National Guard.

**Category 3: Motor Vehicles**—Operating leases for motor vehicles are essentially one year leases funded in appropriation 3400 (O&M). Air Force expects to continue to reduce the level of owned assets, while increasing the number of operational leases. Where possible, Air Force will strive to displace commercial leases in favor of GSA (General Services Administration) leases because GSA leases are typically more economical.

## Note 24.B. Other Disclosures

**Interest Payable:** DFAS Columbus has accumulated prompt payment interest of approximately \$.5 million during FY 2002 for Air Force contracts. The interest payments were not made because the unpaid invoices are under a reconciliation process in an interest-bearing mode.

**Undistributed Collections and Disbursements:** Accounts receivable and payable are adjusted for undistributed collections and disbursements. These transactions represent the Air Force's in-float (undistributed) collections and disbursements for transactions that were reported by a disbursing station but not recorded by the appropriate accountable station. Undistributed amounts are prorated by appropriation based on the percentage of distributed government and public receivables and payables.

**Canceled Balances:** All unliquidated balances associated with closed accounts have been canceled in accordance with Public Law 101-510. Canceled accrued expenditures unpaid are reflected in the financial statements as unfunded liabilities. Canceled undelivered orders outstanding are not included in the financial statements; however, these orders may result in future expenditures. Due to systems deficiencies, canceled receivables are included in the Air Force Balance Sheet. Canceled-year appropriation balances for receivables and payables are not reliable.

## General Funds

# Consolidating and Combining Statements



## Consolidating Balance Sheet—General Funds

As of September 30, 2002 and 2001 (\$ in thousands)

|   | <b>Air Force<br/>Active</b> | <b>Air Force<br/>Reserve</b> | <b>Air National<br/>Guard</b> |
|---|-----------------------------|------------------------------|-------------------------------|
| <b>ASSETS (Note 2)</b>                                    |                             |                              |                               |
| Intragovernmental:  |                             |                              |                               |
| Fund Balance with Treasury (Note 3)                       | 45,383,242                  | 898,471                      | 1,661,037                     |
| Investments (Note 4)                                      | 708                         | 0                            | 0                             |
| Accounts Receivable (Note 5)                              | 546,268                     | 41,380                       | 269,412                       |
| Other Assets (Note 6)                                     | 4,714                       | 91                           | 189                           |
| Total Intragovernmental Assets                            | <u>\$45,934,932</u>         | <u>\$939,942</u>             | <u>\$1,930,638</u>            |
| Cash and Other Monetary Assets (Note 7)                   | 140,645                     | 0                            | 0                             |
| Accounts Receivable (Note 5)                              | 998,374                     | 6,139                        | 13,397                        |
| Inventory and Related Property (Note 9)                   | 28,557,663                  | 37,275                       | 222,626                       |
| General Property, Plant and Equipment (Note 10)           | 20,111,388                  | 814,019                      | 3,321,745                     |
| Other Assets (Note 6)                                     | 7,501,028                   | 4,253                        | 30,633                        |
| <b>TOTAL ASSETS</b>                                       | <u>\$103,244,030</u>        | <u>\$1,801,628</u>           | <u>\$5,519,039</u>            |
| <b>LIABILITIES (Note 11)</b>                              |                             |                              |                               |
| Intragovernmental:  |                             |                              |                               |
| Accounts Payable (Note 12)                                | 1,301,110                   | 77,771                       | 159,758                       |
| Debt (Note 13)  | 134                         | 0                            | 0                             |
| Other Liabilities (Note 15 & Note 16)                     | 2,178,086                   | 4                            | 1,002                         |
| Total Intragovernmental Liabilities                       | <u>\$3,479,330</u>          | <u>\$77,775</u>              | <u>\$160,760</u>              |
| Accounts Payable (Note 12)                                | 5,865,775                   | 164,023                      | 177,169                       |
| Military Retirement Benefits and Other Employment-Related |                             |                              |                               |
| Actuarial Liabilities (Note 17)                           | 867,587                     | 127,741                      | 215,717                       |
| Environmental Liabilities (Note 14)                       | 8,454,564                   | 0                            | 0                             |
| Other Liabilities (Note 15 and Note 16)                   | 3,887,500                   | 38,793                       | 60,895                        |
| <b>TOTAL LIABILITIES</b>                                  | <u>\$22,554,756</u>         | <u>\$408,332</u>             | <u>\$614,541</u>              |
| <b>NET POSITION</b>                                       |                             |                              |                               |
| Unexpended Appropriations (Note 18)                       | 37,257,950                  | 684,574                      | 1,601,326                     |
| Cumulative Results of Operations                          | 43,431,324                  | 708,722                      | 3,303,172                     |
| <b>TOTAL NET POSITION</b>                                 | <u>\$80,689,274</u>         | <u>\$1,393,296</u>           | <u>\$4,904,498</u>            |
| <b>TOTAL LIABILITIES AND NET POSITION</b>                 | <u><u>\$103,244,030</u></u> | <u><u>\$1,801,628</u></u>    | <u><u>\$5,519,039</u></u>     |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 21.

| <b>Combined<br/>Total</b> | <b>Eliminations</b> | <b>2002<br/>Consolidated</b> | <b>2001 Restated<br/>Consolidated</b> | <b>2001<br/>Consolidated</b> |
|---------------------------|---------------------|------------------------------|---------------------------------------|------------------------------|
| 47,942,750                | 0                   | 47,942,750                   | 44,259,788                            | 44,259,788                   |
| 708                       | 0                   | 708                          | 1,088                                 | 1,088                        |
| 857,060                   | 413,906             | 443,154                      | 394,513                               | 394,513                      |
| 4,994                     | 5                   | 4,989                        | 351,706                               | 351,706                      |
| <b>\$48,805,512</b>       | <b>\$413,911</b>    | <b>\$48,391,601</b>          | <b>\$45,007,095</b>                   | <b>\$45,007,095</b>          |
| 140,645                   | 0                   | 140,645                      | 107,530                               | 486,225                      |
| 1,017,910                 | 0                   | 1,017,910                    | 561,769                               | 561,769                      |
| 28,817,564                | 0                   | 28,817,564                   | 25,740,625                            | 57,610,355                   |
| 24,247,152                | 0                   | 24,247,152                   | 20,444,148                            | 20,444,148                   |
| 7,535,914                 | 0                   | 7,535,914                    | 5,509,604                             | 5,509,604                    |
| <b>\$110,564,697</b>      | <b>\$413,911</b>    | <b>\$110,150,786</b>         | <b>\$97,370,771</b>                   | <b>\$129,619,196</b>         |
| 1,538,639                 | 413,906             | 1,124,733                    | 740,585                               | 740,585                      |
| 134                       | 0                   | 134                          | 108                                   | 108                          |
| <b>2,179,092</b>          | <b>5</b>            | <b>2,179,087</b>             | <b>2,257,168</b>                      | <b>2,257,168</b>             |
| <b>\$3,717,865</b>        | <b>\$413,911</b>    | <b>\$3,303,954</b>           | <b>\$2,619,166</b>                    | <b>\$2,997,861</b>           |
| 6,206,967                 | 0                   | 6,206,967                    | 4,180,417                             | 4,180,417                    |
| 1,211,045                 | 0                   | 1,211,045                    | 1,269,811                             | 1,269,811                    |
| 8,454,564                 | 0                   | 8,454,564                    | 7,312,942                             | 7,312,942                    |
| 3,987,188                 | 0                   | 3,987,188                    | 4,118,979                             | 4,118,979                    |
| <b>\$23,577,629</b>       | <b>\$413,911</b>    | <b>\$23,163,718</b>          | <b>\$19,501,315</b>                   | <b>\$19,880,010</b>          |
| 39,543,850                | 0                   | 39,543,850                   | 39,006,789                            | 39,006,789                   |
| 47,443,218                | 0                   | 47,443,218                   | 38,862,667                            | 70,732,397                   |
| <b>\$86,987,068</b>       | <b>\$0</b>          | <b>\$86,987,068</b>          | <b>\$77,869,456</b>                   | <b>\$109,739,186</b>         |
| <b>\$110,564,697</b>      | <b>\$413,911</b>    | <b>\$110,150,786</b>         | <b>\$97,370,771</b>                   | <b>\$129,619,196</b>         |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 21.

## Consolidating Statement of Net Cost—General Funds

For the years ended September 30, 2002 and 2001 (\$ in thousands)

|   | <b>Air Force<br/>Active</b> | <b>Air Force<br/>Reserve</b> | <b>Air National<br/>Guard</b> |
|---|-----------------------------|------------------------------|-------------------------------|
| <b>PROGRAMS COST</b>                                |                             |                              |                               |
| <b>Military Personnel</b>                           |                             |                              |                               |
| Intragovernmental Gross Costs                       | 3,533,658                   | 172,562                      | 252,077                       |
| (Less: Intragovernmental Earned Revenue)            | -147,963                    | -5,014                       | -6,541                        |
| Intragovernmental Net Costs                         | <u>3,385,695</u>            | <u>167,548</u>               | <u>245,536</u>                |
| Gross Costs With the Public                         | 18,591,879                  | 823,684                      | 1,426,489                     |
| (Less: Earned Revenue From the Public)              | -62,685                     | 0                            | -5,543                        |
| Net Costs With the Public                           | <u>18,529,194</u>           | <u>823,684</u>               | <u>1,420,946</u>              |
| Total Net Cost                                      | <u>\$21,914,889</u>         | <u>\$991,232</u>             | <u>\$1,666,482</u>            |
| <b>Operation and Maintenance</b>                    |                             |                              |                               |
| Intragovernmental Gross Costs                       | 15,128,682                  | 1,046,247                    | 2,761,451                     |
| (Less: Intragovernmental Earned Revenue)            | -1,636,738                  | -287,021                     | -774,821                      |
| Intragovernmental Net Costs                         | <u>13,491,944</u>           | <u>759,226</u>               | <u>1,986,630</u>              |
| Gross Costs With the Public                         | 16,719,159                  | 1,163,706                    | 2,086,213                     |
| (Less: Earned Revenue From the Public)              | -407,066                    | -1,088                       | -73,623                       |
| Net Costs With the Public                           | <u>16,312,093</u>           | <u>1,162,618</u>             | <u>2,012,590</u>              |
| Total Net Cost                                      | <u>\$29,804,037</u>         | <u>\$1,921,844</u>           | <u>\$3,999,220</u>            |
| <b>Procurement</b>                                  |                             |                              |                               |
| Intragovernmental Gross Costs                       | 322,021                     | 0                            | 0                             |
| (Less: Intragovernmental Earned Revenue)            | -153,067                    | 0                            | 0                             |
| Intragovernmental Net Costs                         | <u>168,954</u>              | <u>0</u>                     | <u>0</u>                      |
| Gross Costs With the Public                         | 16,329,627                  | 0                            | 0                             |
| (Less: Earned Revenue From the Public)              | -10,410                     | 0                            | 0                             |
| Net Costs With the Public                           | <u>16,319,217</u>           | <u>0</u>                     | <u>0</u>                      |
| Total Net Cost                                      | <u>\$16,488,171</u>         | <u>\$0</u>                   | <u>\$0</u>                    |
| <b>Research, Development, Test &amp; Evaluation</b> |                             |                              |                               |
| Intragovernmental Gross Costs                       | 136,733                     | 0                            | 0                             |
| (Less: Intragovernmental Earned Revenue)            | -865,340                    | 0                            | 0                             |
| Intragovernmental Net Costs                         | <u>-728,607</u>             | <u>0</u>                     | <u>0</u>                      |
| Gross Costs With the Public                         | 15,364,865                  | 0                            | 0                             |
| (Less: Earned Revenue From the Public)              | -113,063                    | 0                            | 0                             |
| Net Costs With the Public                           | <u>15,251,802</u>           | <u>0</u>                     | <u>0</u>                      |
| Total Net Cost                                      | <u>\$14,523,195</u>         | <u>\$0</u>                   | <u>\$0</u>                    |
| <b>Military Construction/Family Housing</b>         |                             |                              |                               |
| Intragovernmental Net Costs                         | <u>3,352</u>                | <u>359</u>                   | <u>453</u>                    |
| Net Costs With the Public                           | <u>302,550</u>              | <u>18,059</u>                | <u>96,822</u>                 |
| Total Net Cost                                      | <u>\$305,902</u>            | <u>\$18,418</u>              | <u>\$97,275</u>               |
| <b>Other</b>  |                             |                              |                               |
| Intragovernmental Gross Costs                       | 12,355                      | 0                            | 0                             |
| (Less: Intragovernmental Earned Revenue)            | -55                         | 0                            | 0                             |
| Intragovernmental Net Costs                         | <u>12,300</u>               | <u>0</u>                     | <u>0</u>                      |
| Gross Costs With the Public                         | 4,085                       | 0                            | 0                             |
| (Less: Earned Revenue From the Public)              | -7,233                      | 0                            | 0                             |
| Net Costs With the Public                           | <u>-3,148</u>               | <u>0</u>                     | <u>0</u>                      |
| Total Net Cost                                      | <u>\$9,152</u>              | <u>\$0</u>                   | <u>\$0</u>                    |
| <b>Total Program Costs</b>                          |                             |                              |                               |
| Intragovernmental Gross Costs                       | 19,136,801                  | 1,219,168                    | 3,013,981                     |
| (Less: Intragovernmental Earned Revenue)            | -2,803,163                  | -292,035                     | -781,362                      |
| Intragovernmental Net Costs                         | <u>16,333,638</u>           | <u>927,133</u>               | <u>2,232,619</u>              |
| Gross Costs With the Public                         | 67,312,165                  | 2,005,449                    | 3,609,524                     |
| (Less: Earned Revenue From the Public)              | -600,457                    | -1,088                       | -79,166                       |
| Net Costs With the Public                           | <u>66,711,708</u>           | <u>2,004,361</u>             | <u>3,530,358</u>              |
| <b>NET COST OF OPERATIONS</b>                       | <b><u>\$83,045,346</u></b>  | <b><u>\$2,931,494</u></b>    | <b><u>\$5,762,977</u></b>     |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 19.

| <b>Combined<br/>Total</b> | <b>Eliminations</b> | <b>2002<br/>Consolidated</b> | <b>2001 Restated<br/>Consolidated</b> | <b>2001<br/>Consolidated</b> |
|---------------------------|---------------------|------------------------------|---------------------------------------|------------------------------|
| 3,958,297                 | 85,200              | 3,873,097                    | 3,341,205                             | 3,341,205                    |
| -159,518                  | -6,664              | -152,854                     | -116,341                              | -116,341                     |
| <u>3,798,779</u>          | <u>78,536</u>       | <u>3,720,243</u>             | <u>3,224,864</u>                      | <u>3,224,864</u>             |
| 20,842,052                | 0                   | 20,842,052                   | 17,906,083                            | 17,906,083                   |
| -68,228                   | 0                   | -68,228                      | -80,369                               | -80,369                      |
| <u>20,773,824</u>         | <u>0</u>            | <u>20,773,824</u>            | <u>17,825,714</u>                     | <u>17,825,714</u>            |
| \$24,572,603              | \$78,536            | \$24,494,067                 | \$21,050,578                          | \$21,050,578                 |
| 18,936,380                | 1,463,722           | 17,472,658                   | 14,586,302                            | 14,586,302                   |
| -2,698,580                | -1,541,592          | -1,156,988                   | -1,472,775                            | -1,472,775                   |
| <u>16,237,800</u>         | <u>-77,870</u>      | <u>16,315,670</u>            | <u>13,113,527</u>                     | <u>13,113,527</u>            |
| 19,969,078                | 0                   | 19,969,078                   | 14,551,845                            | 19,151,162                   |
| -481,777                  | 0                   | -481,777                     | -408,044                              | -408,044                     |
| <u>19,487,301</u>         | <u>0</u>            | <u>19,487,301</u>            | <u>14,143,801</u>                     | <u>18,743,118</u>            |
| \$35,725,101              | -\$77,870           | \$35,802,971                 | \$27,257,328                          | \$31,856,645                 |
| 322,021                   | 304                 | 321,717                      | 487,098                               | 487,098                      |
| -153,067                  | 0                   | -153,067                     | -36,484                               | -36,484                      |
| <u>168,954</u>            | <u>304</u>          | <u>168,650</u>               | <u>450,614</u>                        | <u>450,614</u>               |
| 16,329,627                | 0                   | 16,329,627                   | 16,508,176                            | 16,508,176                   |
| -10,410                   | 0                   | -10,410                      | -29,283                               | -29,283                      |
| <u>16,319,217</u>         | <u>0</u>            | <u>16,319,217</u>            | <u>16,478,893</u>                     | <u>16,478,893</u>            |
| \$16,488,171              | \$304               | \$16,487,867                 | \$16,929,507                          | \$16,929,507                 |
| 136,733                   | 11                  | 136,722                      | 246,974                               | 246,974                      |
| -865,340                  | -980                | -864,360                     | -585,351                              | -585,351                     |
| <u>-728,607</u>           | <u>-969</u>         | <u>-727,638</u>              | <u>-338,377</u>                       | <u>-338,377</u>              |
| 15,364,865                | 0                   | 15,364,865                   | 14,889,595                            | 14,889,595                   |
| -113,063                  | 0                   | -113,063                     | -77,232                               | -77,232                      |
| <u>15,251,802</u>         | <u>0</u>            | <u>15,251,802</u>            | <u>14,812,363</u>                     | <u>14,812,363</u>            |
| \$14,523,195              | -\$969              | \$14,524,164                 | \$14,473,986                          | \$14,473,986                 |
| <u>4,164</u>              | <u>0</u>            | <u>4,164</u>                 | <u>5,716</u>                          | <u>5,716</u>                 |
| 417,431                   | 0                   | 417,431                      | 5,356,563                             | 5,356,563                    |
| <u>\$421,595</u>          | <u>\$0</u>          | <u>\$421,595</u>             | <u>\$5,362,279</u>                    | <u>\$5,362,279</u>           |
| 12,355                    | 1                   | 12,354                       | 5,164                                 | 5,164                        |
| -55                       | 0                   | -55                          | -71                                   | -71                          |
| <u>12,300</u>             | <u>1</u>            | <u>12,299</u>                | <u>5,093</u>                          | <u>5,093</u>                 |
| 4,085                     | 0                   | 4,085                        | -3,853                                | -3,853                       |
| -7,233                    | 0                   | -7,233                       | 0                                     | 0                            |
| <u>-3,148</u>             | <u>0</u>            | <u>-3,148</u>                | <u>-3,853</u>                         | <u>-3,853</u>                |
| \$9,152                   | \$1                 | \$9,151                      | \$1,240                               | \$1,240                      |
| 23,369,950                | 1,549,238           | 21,820,712                   | 18,672,472                            | 18,672,472                   |
| -3,876,560                | -1,549,236          | -2,327,324                   | -2,211,035                            | -2,211,035                   |
| <u>19,493,390</u>         | <u>2</u>            | <u>19,493,388</u>            | <u>16,461,437</u>                     | <u>16,461,437</u>            |
| 72,927,138                | 0                   | 72,927,138                   | 69,208,409                            | 73,807,726                   |
| -680,711                  | 0                   | -680,711                     | -594,928                              | -594,928                     |
| <u>72,246,427</u>         | <u>0</u>            | <u>72,246,427</u>            | <u>68,613,487</u>                     | <u>73,212,798</u>            |
| <u>\$91,739,817</u>       | <u>\$2</u>          | <u>\$91,739,815</u>          | <u>\$85,074,918</u>                   | <u>\$89,674,235</u>          |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 19.

## Consolidating Statement of Changes in Net Position—General Funds

For the years ended September 30, 2002 and 2001 (\$ in thousands)

|  | <b>Air Force Active</b>                         |                                      | <b>Air Force Reserve</b>                        |                                      | <b>Air National Guard</b>                       |                                      |
|--|---|--------------------------------------|---|--------------------------------------|---|--------------------------------------|
|  | <b>Cumulative<br/>Results of<br/>Operations</b> | <b>Unexpended<br/>Appropriations</b> | <b>Cumulative<br/>Results of<br/>Operations</b> | <b>Unexpended<br/>Appropriations</b> | <b>Cumulative<br/>Results of<br/>Operations</b> | <b>Unexpended<br/>Appropriations</b> |
| <b>BEGINNING BALANCES</b>                              |   |                                      |   |                                      |   |                                      |
| Prior period adjustments (+/-)                         | 63,768,582                                      | 37,344,088                           | 1,105,902                                       | 524,914                              | 5,857,913                                       | 1,137,787                            |
| <b>BEGINNING BALANCES, ADJUSTED</b>                    | <b>-28,369,260</b>                              | <b>0</b>                             | <b>-496,749</b>                                 | <b>0</b>                             | <b>-3,003,721</b>                               | <b>0</b>                             |
| <b>BUDGETARY FINANCING SOURCES</b>                     |   |                                      |   |                                      |   |                                      |
| Appropriations received                                | 0   | 87,631,193                           | 0   | 3,209,181                            | 0   | 6,111,698                            |
| Appropriations transferred-in/out (+/-)                | 0   | 5,144,774                            | 0   | -84,845                              | 0   | 24,874                               |
| Other adjustments (rescissions, etc) (+/-)             | 0   | -1,921,556                           | 0   | -43,779                              | 0   | -97,071                              |
| Appropriations used                                    | 90,940,549                                      | -90,940,549                          | 2,920,897                                       | -2,920,897                           | 5,575,962                                       | -5,575,962                           |
| Donations and forfeitures of cash and cash equivalents | 12,681  | 0                                    | 0   | 0                                    | 0   | 0                                    |
| Other budgetary financing sources (+/-)                | 500,087   | 0                                    | -136,970  | 0                                    | -116,644  | 0                                    |
| <b>OTHER FINANCING SOURCES</b>                         |   |                                      |   |                                      |   |                                      |
| Transfers-in/out without reimbursement (+/-)           | -973,049  | 0                                    | 247,138   | 0                                    | 752,639   | 0                                    |
| Imputed financing from costs absorbed by others        | 597,076   | 0                                    | 0   | 0                                    | 0   | 0                                    |
| <b>TOTAL FINANCING SOURCES</b>                         | <b>\$91,077,344</b>                             | <b>-\$86,138</b>                     | <b>\$3,031,065</b>                              | <b>\$159,660</b>                     | <b>\$6,211,957</b>                              | <b>\$463,539</b>                     |
| <b>NET COST OF OPERATIONS (+/-)</b>                    | <b>\$83,045,344</b>                             | <b>\$0</b>                           | <b>\$2,931,494</b>                              | <b>\$0</b>                           | <b>\$5,762,977</b>                              | <b>\$0</b>                           |
| <b>ENDING BALANCES</b>                                 | <b>\$43,431,322</b>                             | <b>\$37,257,950</b>                  | <b>\$708,724</b>                                | <b>\$684,574</b>                     | <b>\$3,303,172</b>                              | <b>\$1,601,326</b>                   |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 20.

| <b>Combined Total</b>                           |                                      |                     | <b>2002 Consolidated</b>                        |                                      |  | <b>2001 Consolidated</b>                        |                                     |  |
|---|--------------------------------------|---------------------|---|--------------------------------------|--|---|-------------------------------------|--|
| <b>Cumulative<br/>Results of<br/>Operations</b> | <b>Unexpended<br/>Appropriations</b> | <b>Eliminations</b> | <b>Cumulative<br/>Results of<br/>Operations</b> | <b>Unexpended<br/>Appropriations</b> | <b>Restated<br/>Cumulative<br/>Results of<br/>Operations</b> | <b>Cumulative<br/>Results of<br/>Operations</b> | <b>Unexpended<br/>Appropriation</b> |  |
| 70,732,397                                      | 39,006,789                           | 0                   | 70,732,397                                      | 39,006,789                           | 31,980,779   | 31,980,779                                      | 35,240,415                          |  |
| -31,869,730                                     | 0                                    | 0                   | -31,869,730                                     | 0                                    | 2,536,283  | 39,005,325                                      | 0                                   |  |
| <b>\$38,862,667</b>                             | <b>\$39,006,789</b>                  | <b>\$0</b>          | <b>\$38,862,667</b>                             | <b>\$39,006,789</b>                  | <b>\$34,517,062</b>  | <b>\$70,986,104</b>                             | <b>\$35,240,415</b>                 |  |
|   |                                      |                     |   |                                      |  |   |                                     |  |
| 0   | 96,952,072                           | 0                   | 0   | 96,952,072                           | 0  | 0   | 3,766,374                           |  |
| 0   | 5,084,803                            | 0                   | 0   | 5,084,803                            | 0  | 0   | 0                                   |  |
| 0   | -2,062,406                           | 0                   | 0   | -2,062,406                           | 0  | 0   | 0                                   |  |
| 99,437,408                                      | -99,437,408                          | 0                   | 99,437,408                                      | -99,437,408                          | 86,135,105   | 86,135,105                                      | 0                                   |  |
| 12,681  | 0                                    | 0                   | 12,681  | 0                                    | 5,872  | 5,872   | 0                                   |  |
| 246,473   | 0                                    | 0                   | 246,473   | 0                                    | 2,236,422  | 2,236,422                                       | 0                                   |  |
| 26,728  | 0                                    | 0                   | 26,728  | 0                                    | 456,260  | 456,260   | 0                                   |  |
| 597,076   | 0                                    | 0                   | 597,076   | 0                                    | 586,864  | 586,864   | 0                                   |  |
| <b>\$10,320,366</b>                             | <b>\$537,061</b>                     | <b>\$0</b>          | <b>\$100,320,366</b>                            | <b>\$537,061</b>                     | <b>\$89,420,523</b>  | <b>\$89,420,523</b>                             | <b>\$3,766,374</b>                  |  |
|   |                                      |                     |   |                                      |  |   |                                     |  |
| \$91,739,815                                    | \$0                                  | \$0                 | \$91,739,815                                    | \$0                                  | \$85,074,918   | \$89,674,235                                    | \$0                                 |  |
| <b>\$47,443,218</b>                             | <b>\$39,543,850</b>                  | <b>\$0</b>          | <b>\$47,443,218</b>                             | <b>\$39,543,850</b>                  | <b>\$38,862,667</b>  | <b>\$70,732,392</b>                             | <b>\$39,006,789</b>                 |  |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 20.

## Combining Statement of Budgetary Resources—General Funds

For the years ended September 30, 2002 and 2001 (\$ in thousands)

|  | <b>Air Force Active</b>     |                      | <b>Air Force Reserve</b>  |                      |
|--|-----------------------------|----------------------|---------------------------|----------------------|
|  | <b>Budgetary</b>            | <b>Non-Budgetary</b> | <b>Budgetary</b>          | <b>Non-Budgetary</b> |
| <b>BUDGETARY RESOURCES</b>                     |                             |                      |                           |                      |
| Budget Authority                               |                             |                      |                           |                      |
| Appropriations received                        | 87,154,471                  | 0                    | 3,155,883                 | 0                    |
| Net transfers (+/-)                            | 4,984,568                   | 0                    | -54,845                   | 0                    |
| Unobligated balance                            |                             |                      |                           |                      |
| Beginning of period                            | 6,874,724                   | 0                    | 116,888                   | 0                    |
| Net transfers, actual (+/-)                    | 160,206                     | 0                    | -30,000                   | 0                    |
| Spending authority from offsetting collections |                             |                      |                           |                      |
| Earned   |                             |                      |                           |                      |
| Collected                                      | 5,601,821                   | 0                    | 263,074                   | 0                    |
| Receivable from Federal sources                | 67,838                      | 0                    | 30,092                    | 0                    |
| Change in unfilled customer orders             |                             |                      |                           |                      |
| Advance received                               | 106,457                     | 0                    | 0                         | 0                    |
| Without advance from Federal sources           | -1,201                      | 0                    | -53                       | 0                    |
| Subtotal                                       | <u>\$5,774,915</u>          | <u>\$0</u>           | <u>\$293,113</u>          | <u>\$0</u>           |
| Recoveries of prior year obligations           | 939,506                     | 0                    | 32,446                    | 0                    |
| Permanently not available                      | -1,921,556                  | 0                    | -43,786                   | 0                    |
| <b>TOTAL BUDGETARY RESOURCES</b>               | <b><u>\$103,966,834</u></b> | <b><u>\$0</u></b>    | <b><u>\$3,469,699</u></b> | <b><u>\$0</u></b>    |
| <b>STATUS OF BUDGETARY RESOURCES</b>           |                             |                      |                           |                      |
| Obligations incurred                           |                             |                      |                           |                      |
| Direct   | 91,598,481                  | 0                    | 3,062,291                 | 0                    |
| Reimbursable                                   | 6,688,804                   | 0                    | 293,664                   | 0                    |
| Subtotal                                       | <u>98,287,285</u>           | <u>0</u>             | <u>3,355,955</u>          | <u>0</u>             |
| Unobligated balance:                           |                             |                      |                           |                      |
| Apportioned                                    | 5,047,601                   | 0                    | 35,541                    | 0                    |
| Exempt from apportionment                      | 4,607                       | 0                    | 0                         | 0                    |
| Other available                                | -1                          | 0                    | 0                         | 0                    |
| Unobligated Balances Not Available             | 627,342                     | 0                    | 78,203                    | 0                    |
| <b>TOTAL, STATUS OF BUDGETARY RESOURCES</b>    | <b><u>\$103,966,834</u></b> | <b><u>\$0</u></b>    | <b><u>\$3,469,699</u></b> | <b><u>\$0</u></b>    |
| <b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>  |                             |                      |                           |                      |
| Obligated Balance, Net – beginning of period   | 35,455,893                  | 0                    | 540,801                   | 0                    |
| Obligated Balance, Net – end of period:        |                             |                      |                           |                      |
| Accounts receivable                            | -1,162,423                  | 0                    | -41,921                   | 0                    |
| Unfilled customer order from Federal sources   | -465,024                    | 0                    | 0                         | 0                    |
| Undelivered orders                             | 32,167,811                  | 0                    | 566,282                   | 0                    |
| Accounts payable                               | 9,109,282                   | 0                    | 260,366                   | 0                    |
| Outlays:                                       |                             |                      |                           |                      |
| Disbursements                                  | 93,087,390                  | 0                    | 3,049,544                 | 0                    |
| Collections                                    | -5,708,279                  | 0                    | -263,074                  | 0                    |
| Subtotal                                       | <u>87,379,111</u>           | <u>0</u>             | <u>2,786,470</u>          | <u>0</u>             |
| Less: Offsetting receipts                      | -121,154                    | 0                    | 0                         | 0                    |
| <b>NET OUTLAYS</b>                             | <b><u>\$87,257,957</u></b>  | <b><u>\$0</u></b>    | <b><u>\$2,786,470</u></b> | <b><u>\$0</u></b>    |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 21.

| <b>Air Force National Guard</b> |                      | <b>2002 Combined Total</b> |                      | <b>2001 Combined Total</b> |                      |
|---------------------------------|----------------------|----------------------------|----------------------|----------------------------|----------------------|
| <b>Budgetary</b>                | <b>Non-Budgetary</b> | <b>Budgetary</b>           | <b>Non-Budgetary</b> | <b>Budgetary</b>           | <b>Non-Budgetary</b> |
| 6,019,501                       | 0                    | 96,329,855                 | 0                    | 87,803,883                 | 0                    |
| 24,874                          | 0                    | 4,954,597                  | 0                    | 4,913,418                  | 0                    |
| 211,677                         | 0                    | 7,203,289                  | 0                    | 7,105,053                  | 0                    |
| 0                               | 0                    | 130,206                    | 0                    | -2,130,103                 | 0                    |
| 686,689                         | 0                    | 6,551,584                  | 0                    | 4,875,191                  | 0                    |
| 176,577                         | 0                    | 274,507                    | 0                    | 312,728                    | 0                    |
| 21                              | 0                    | 106,478                    | 0                    | -41,657                    | 0                    |
| 72                              | 0                    | -1,182                     | 0                    | 64,971                     | 0                    |
| <u>\$863,359</u>                | <u>\$0</u>           | <u>\$6,931,387</u>         | <u>\$0</u>           | <u>\$5,211,233</u>         | <u>\$0</u>           |
| 79,641                          | 0                    | 1,051,593                  | 0                    | 1,272,122                  | 0                    |
| -97,071                         | 0                    | -2,062,413                 | 0                    | -1,996,394                 | 0                    |
| <u>\$7,101,981</u>              | <u>\$0</u>           | <u>\$114,538,514</u>       | <u>\$0</u>           | <u>\$102,179,212</u>       | <u>\$0</u>           |
| 5,961,329                       | 0                    | 100,622,101                | 0                    | 89,602,365                 | 0                    |
| 867,436                         | 0                    | 7,849,904                  | 0                    | 5,373,560                  | 0                    |
| <u>6,828,765</u>                | <u>0</u>             | <u>108,472,005</u>         | <u>0</u>             | <u>94,975,925</u>          | <u>0</u>             |
| 185,036                         | 0                    | 5,268,178                  | 0                    | 6,367,908                  | 0                    |
| 0                               | 0                    | 4,607                      | 0                    | 2,494                      | 0                    |
| 0                               | 0                    | -1                         | 0                    | 1                          | 0                    |
| 88,180                          | 0                    | 793,725                    | 0                    | 832,884                    | 0                    |
| <u>\$7,101,981</u>              | <u>\$0</u>           | <u>\$114,538,514</u>       | <u>\$0</u>           | <u>\$102,179,212</u>       | <u>\$0</u>           |
| 1,052,477                       | 0                    | 37,049,171                 | 0                    | 33,410,761                 | 0                    |
| -277,621                        | 0                    | -1,481,965                 | 0                    | -1,207,458                 | 0                    |
| -183                            | 0                    | -465,207                   | 0                    | -466,389                   | 0                    |
| 1,296,610                       | 0                    | 34,030,703                 | 0                    | 32,011,469                 | 0                    |
| 369,015                         | 0                    | 9,738,663                  | 0                    | 6,711,552                  | 0                    |
| 6,237,130                       | 0                    | 102,374,064                | 0                    | 89,687,692                 | 0                    |
| -686,710                        | 0                    | -6,658,063                 | 0                    | -4,833,534                 | 0                    |
| <u>5,550,420</u>                | <u>0</u>             | <u>95,716,001</u>          | <u>0</u>             | <u>84,854,158</u>          | <u>0</u>             |
| 0                               | 0                    | -121,154                   | 0                    | 0                          | 0                    |
| <u>\$5,550,420</u>              | <u>\$0</u>           | <u>\$95,594,847</u>        | <u>\$0</u>           | <u>\$84,854,158</u>        | <u>\$0</u>           |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 21.

## Combining Statement of Financing—General Funds

For the years ended September 30, 2002 and 2001 (\$ in thousands)

|   | <b>Air Force<br/>Active</b> |
|---|-----------------------------|
| <b>RESOURCES USED TO FINANCE ACTIVITIES</b>   |                             |
| Budgetary Resources Obligated   |                             |
| Obligations incurred  | 98,287,285                  |
| Less: Spending authority from offsetting collections and recoveries (-)   | <u>-6,714,421</u>           |
| Obligations net of offsetting collections and recoveries  | 91,572,864                  |
| Less: Offsetting receipts (-)   | <u>-121,154</u>             |
| Net obligations   | <u>91,451,710</u>           |
| Other Resources   |                             |
| Transfers in/out without reimbursement (+/-)  | 26,776                      |
| Imputed financing from costs absorbed by others   | 597,076                     |
| Other (+/-)   | <u>0</u>                    |
| Net other resources used to finance activities  | <u>623,852</u>              |
| <b>TOTAL RESOURCES USED TO FINANCE ACTIVITIES</b>   | <b><u>92,075,562</u></b>    |
| <b>RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS</b>                                     |                             |
| Change in budgetary resources obligated for goods, services and benefits ordered but not yet                      |                             |
| Undelivered Orders (-)  | -1,589,571                  |
| Unfilled Customer Orders  | 105,256                     |
| Resources that fund expenses recognized in prior periods  | <u>-599,875</u>             |
| Resources that finance the acquisition of assets  | <u>-10,208,478</u>          |
| Total resources used to finance items not part of the net cost of operations                                      | <u>-12,292,668</u>          |
| <b>TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS</b>   | <b><u>\$79,782,894</u></b>  |
| <b>COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b> |                             |
| <b>COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS</b>   |                             |
| Increase in annual leave liability  | -71,316                     |
| Increase in environmental and disposal liability  | 1,117,408                   |
| Other (+/-)   | <u>62,701</u>               |
| Total components of Net Cost of Operations that will require or generate resources in future                      | <u>1,108,793</u>            |
| <b>COMPONENTS NOT REQUIRING OR GENERATING RESOURCES</b>   |                             |
| Depreciation and amortization   | 1,505,011                   |
| Revaluation of assets or liabilities (+/-)  | 3,715,480                   |
| Other (+/-)   | <u>-3,066,834</u>           |
| Total components of Net Cost of Operations that will not require or generate resources                            | <u>2,153,657</u>            |
| <b>TOTAL COMPONENTS NET COST OF OPERATIONS THAT WILL REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD</b>          | <b><u>\$3,262,450</u></b>   |
| <b>NET COST OF OPERATIONS</b>   | <b><u>\$83,045,346</u></b>  |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 22.

| Air Force Reserve    | Air National Guard   | 2002 Combining         | 2001 Restated Combining | 2001 Combining         |
|----------------------|----------------------|------------------------|-------------------------|------------------------|
| 3,355,955            | 6,828,765            | 108,472,005            | 94,975,926              | 94,975,926             |
| -325,559             | -943,000             | -7,982,980             | -6,483,355              | -6,483,355             |
| 3,030,396            | 5,885,765            | 100,489,025            | 88,492,571              | 88,492,571             |
| 0                    | 0                    | -121,154               | 0                       | 0                      |
| <b>3,030,396</b>     | <b>5,885,765</b>     | <b>100,367,871</b>     | <b>88,492,571</b>       | <b>88,492,571</b>      |
| <br>-49              | <br>0                | <br>26,727             | <br>-17,417             | <br>-17,417            |
| <br>0                | <br>0                | <br>597,076            | <br>586,864             | <br>586,864            |
| <br>0                | <br>0                | <br>0                  | <br>-2,731              | <br>-2,731             |
| <br>-49              | <br>0                | <br>623,803            | <br>566,716             | <br>566,716            |
| <b>3,030,347</b>     | <b>5,885,765</b>     | <b>100,991,674</b>     | <b>89,059,287</b>       | <b>89,059,287</b>      |
| <br><br><br>-215,960 | <br><br><br>-417,253 | <br><br><br>-2,222,784 | <br><br><br>-2,402,847  | <br><br><br>-2,402,847 |
| <br>-53              | <br>92               | <br>105,295            | <br>23,314              | <br>23,314             |
| <br>-6,347           | <br>-45,719          | <br>-651,941           | <br>574,535             | <br>574,535            |
| <br>-166,139         | <br>-485,350         | <br>-10,859,967        | <br>-9,168,868          | <br>-4,569,551         |
| <br>-388,499         | <br>-948,230         | <br>-13,629,397        | <br>10,973,866          | <br>-6,374,549         |
| <b>\$2,641,848</b>   | <b>\$4,937,535</b>   | <b>\$87,362,277</b>    | <b>\$78,085,421</b>     | <b>\$82,684,738</b>    |
| <br><br><br>0        | <br><br><br>0        | <br><br><br>-71,316    | <br><br><br>0           | <br><br><br>0          |
| <br>0                | <br>0                | <br>1,117,408          | <br>0                   | <br>0                  |
| <b>8,914</b>         | <b>1,587</b>         | <b>73,202</b>          | <b>467,148</b>          | <b>467,148</b>         |
| <b>8,914</b>         | <b>1,587</b>         | <b>1,119,294</b>       | <b>467,148</b>          | <b>467,148</b>         |
| <br>42,301           | <br>247,783          | <br>1,795,095          | <br>2,895,300           | <br>2,895,300          |
| <br>0                | <br>0                | <br>3,715,480          | <br>-15,771             | <br>-15,771            |
| <br>238,432          | <br>576,071          | <br>-2,252,331         | <br>3,642,820           | <br>3,642,820          |
| <br>280,733          | <br>823,854          | <br>3,258,244          | <br>6,522,349           | <br>6,522,349          |
| <b>\$289,647</b>     | <b>\$825,441</b>     | <b>\$4,377,538</b>     | <b>\$6,989,497</b>      | <b>\$6,989,497</b>     |
| <b>\$2,931,494</b>   | <b>\$5,762,975</b>   | <b>\$91,739,815</b>    | <b>\$85,074,918</b>     | <b>\$89,674,235</b>    |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 22.

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## General Funds

# Required Supplementary Stewardship Information



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## National Defense Property, Plant and Equipment

The Federal Accounting Standards Advisory Board (FASAB) revised the Statement of Federal Financial Accounting Standards No. 6 to require the capitalization of military equipment (formerly National Defense Property, Plant and Equipment (ND PP&E)) for fiscal year (FY) 2003 and beyond and encouraged early implementation. Based on this, the Department of Defense terminated the reporting of quantities and condition of military equipment in FY 2002.

**Heritage Assets**  
For Fiscal Year Ended September 2002

|                          | <b>Measurement Quantities</b> | <b>As of 10/01/01</b> | <b>Additions</b> | <b>Deletions</b> | <b>As of 9/30/02</b> |
|--------------------------|-------------------------------|-----------------------|------------------|------------------|----------------------|
| Museums                  | Each                          | 19                    | 0                | 1                | 18                   |
| Monuments and Memorials  | Each                          | 151                   | 0                | 0                | 151                  |
| Cemeteries               | Sites                         | 39                    | 0                | 0                | 39                   |
| Archeological Sites      | Sites                         | 1,518                 | 167              | 0                | 1,685                |
| Buildings and Structures | Each                          | 4,340                 | 0                | 266              | 4,074                |
| Major Collections        | Each                          | 4                     | 0                | 0                | 4                    |

### 1. Museums

The Air Force Museum, located at Wright-Patterson Air Force Base, Ohio, houses the main collection of historical artifacts that are registered as historical property in the USAF Museum System. The other 17 Air Force museums are considered Air Force Field Museums or Heritage Centers, which also contain items of historical interest; some however, are specific to the general locality.

During FY 2002, the Fairchild Heritage Center closed and was deleted from the AF inventory. All remaining museums and Heritage Centers are reported in acceptable condition.

### 2. Monuments and Memorials

The memorials and monuments reported above, except for 28, are all located at the Air Force Academy in the Air Gardens and Honor Court. Most of these monuments and memorials honor specific individuals or cadet wings for various accomplishments. The remaining 28 memorials, all with costs that exceed \$100,000, are located on various Air Force bases throughout the United States. All are reported in acceptable condition.

### 3. Cemeteries

The Air Force has administrative and curatorial responsibilities for 39 cemeteries on its bases. The cemeteries are maintained by the bases and are in good condition.

### 4. Archeological Sites

As of 30 September 2002, the AF has 1,685 archeological sites listed on or eligible for the National Register. The increase over last year's figure is a result of the completion of more archeological surveys on AF managed land. In addition, the AF has 9,779 potentially eligible archeological sites, and 2,464 non-eligible archaeological sites, neither are listed on this report. The numbers of archaeological sites will increase yearly as the AF completes surveys in compliance with the National Historic Preservation Act. The number of archaeological sites on AF managed lands is reported

each year in the Report to Congress on Federal Archaeological Activities (FY01 report submitted March 02). The identified sites are maintained in an acceptable condition.

## 5. Buildings and Structures

The Air Force currently considers 4,074 buildings and structures as heritage assets. In FY 2002, the Air Force performed a closer review of its heritage asset data and refined the reporting criteria that resulted in decreasing the number of heritage structures by 266. Most of these buildings and structures are considered Multi-use Heritage Assets, and as such, have been reported as general Property, plant and equipment on the Balance Sheet. The buildings and structures are maintained by each base civil engineering group and are considered to be in good condition.

## 6. Major Collections

The Air Force has 4 significant or major collections consisting of: (a) the Air Force Art Collection, and (b) three collections at the Air Force Academy containing historical items and memorabilia as well as distinctive works of art. The curators for all major collections reported the contents to be in good condition. They further added that almost all of the materials are protected in an environment suitable for long-term storage. The overall condition of the collections in the museums is good; items are displayed and protected in accordance with the standards of Air Force Instruction 84-103, USAF Museum System.

### **Stewardship Land**

For Fiscal Year Ended September 2002 (acres in thousands)

| (a)<br>Land Use             | (b)<br>As of 10/01/01 | (c)<br>Additions | (d)<br>Deletions | (e)<br>As of 9/30/02 |
|-----------------------------|-----------------------|------------------|------------------|----------------------|
| 1. Mission                  | 7,734                 | 20               | 26               | 7,728                |
| 2. Parks and Historic Sites | -                     |                  |                  | -                    |
| <b>Totals</b>               | <b>7,734</b>          | <b>20</b>        | <b>26</b>        | <b>7,728</b>         |

The Air Force has 7,734 acres of mission-essential land under their administration. Lands purchased by the Air Force with the intent to construct buildings or facilities are considered general property, plant and equipment and are reported on the balance sheet. All stewardship lands reported are in acceptable condition.

### **Nonfederal Physical Property**

Yearly Investment in State and Local Governments

For Fiscal Years 1998 through FY 2002 (\$ in millions)

| Categories                       | FY 1999       | FY 2000      | FY 2001       | FY 2002       |
|----------------------------------|---------------|--------------|---------------|---------------|
| <b>Funded Assets:</b>            |               |              |               |               |
| National Defense Mission Related | \$16.6        | \$6.8        | \$20.2        | \$21.3        |
| <b>Total</b>                     | <b>\$16.6</b> | <b>\$6.8</b> | <b>\$20.2</b> | <b>\$21.3</b> |

The Air National Guard investments in non-federal physical property are strictly through the Military Construction Cooperative Agreements (MCCAs). These agreements involve the transfer of money only and allow joint participation with States, Counties, and Airport Authorities for construction or repair of airfield pavements and facilities required to support the flying mission assigned at these civilian airfields.

Investment values included in this report are based on Nonfederal Physical Property outlays (expenditures). Outlays are used because current DoD systems are unable to capture and summarize costs in accordance with the Federal Accounting Standards Advisory Board Requirements.

**Investments in Research and Development**  
**Yearly Investment in Research and Development**  
**For Fiscal Years 1998 through 2002 (\$ in millions)**

| Categories                                 | FY 1998         | FY 1999         | FY 2000         | FY 2001         | FY 2002         |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| 1. Basic Research                          | \$212           | \$206           | \$193           | \$230           | \$214           |
| 2. Applied Research                        | 583             | 562             | 547             | 582             | 683             |
| 3. Development                             |                 |                 |                 |                 |                 |
| Advanced Technology Development            | 491             | 483             | 496             | 522             | 508             |
| Demonstration and Validation               | 1,197           | 1,295           | 1,013           | 1,039           | 1,067           |
| Engineering and Manufacturing Development  | 4,371           | 4,200           | 3,991           | 3,776           | 3,088           |
| Research, Development, Test and Evaluation |                 |                 |                 |                 |                 |
| Management Support                         | 1,097           | 934             | 805             | 747             | 910             |
| Operational Systems Development            | 6,798           | 6,810           | 7,062           | 7,377           | 7,815           |
| <b>Totals</b>                              | <b>\$14,742</b> | <b>\$14,490</b> | <b>\$14,107</b> | <b>\$14,273</b> | <b>\$14,285</b> |

Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic Research involves the gathering of a fuller knowledge or understanding of the subject under study. Major outputs are scientific studies and research papers.

Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, and research papers, hardware components, software codes, and limited construction of, or part of, a weapon system to include nonsystem specific development efforts.

Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development is comprised of five stages defined below:

1. Advanced Technology Development is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operational and producibility rather than the development of hardware for service use. Employs demonstration activities intended to prove or test a technology or method.
2. Demonstration and Validation evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Demonstration and Validation are hardware and software components, or complete weapon systems, ready for operational and developmental testing and field use.
3. Engineering and Manufacturing Development concludes the program or project and prepares it for production. It consists primarily of pre-production efforts, such as logistics and repair studies. Major outputs are weapon systems finalized for complete operational and developmental testing.

4. RDT&E Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operations and maintenance of test aircraft and ships, and studies and analysis in support of the R&D program.

5. Operational Systems Development is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development, which have received approval for production, for which production funds have been budgeted in subsequent fiscal years.

The following are two representative program examples for each of the above major categories:

**Basic Research**—The Air Force’s (AF) Basic Research program funded basic scientific disciplines that are core to developing future warfighting capabilities. Funding was provided to twelve different scientific projects areas. These focused on atmospherics, biological sciences, chemistry, electronics, fluid mechanics, human performance, materials, mathematical and computer sciences, physics, propulsion, space sciences, and structures. (1) One example is the development of technology that could be the breakthrough for a new generation of computers (quantum computers). The AF Research Lab (AFRL) demonstrated the ability to stop light and release it again without losing any of its original characteristics. This development could lead to a breakthrough in nonlinear optics with applications from telecommunications to imaging, which could be useful in designing ultra-sensitive optical switches. (2) Another example, AFRL researchers developed a new mathematical theory that would result in a new radar wave that would aid in rapid and accurate target identification through foliage and beneath soil, better than any radar currently in use.

**Applied Research**—The AF’s Applied Research program is developing technologies to support the air and space force of the future. Technology developments are focused in those areas that are essential to these warfighting capabilities. This investment strategy allows the AF to focus on those military-relevant technologies that are not being developed by industry. (1) One example is the F119 turbine engine case redesign using a new casting process, with a predicted life-cycle cost savings of 35 percent. The redesign makes extensive use of thin-wall castings in place of the existing complex, multi-walled, and diffusion-bonded sheet metal assemblies. The AF is now looking at this technology for use on other aircraft engines. Example two, AFRL recently achieved a milestone in wireless Internet communications with the first commercial installation of the Space Communications Protocol Standards (SCPS) transport gateway over National Aeronautics and Space Administration’s Advanced Communications Technology Satellite. The SCPS transport gateway offers up to several times the bandwidth utilization efficiency of the well-known Internet protocols.

**Advanced Technology Development**—The AF’s Advanced Technology Development program demonstrates, in a realistic operational environment, integrated sets of technology to prove military worth and utility. The first example was the AF and the Defense Advanced Research Projects Agency accomplishing the first Unmanned Combat Air Vehicle (UCAV) flight. This successful flight test demonstrated the command and control links between the aircraft and a mission-oriented ground station. Secondly, AFRL also demonstrated a 330 Gigahertz detector that operates at frequencies billions of times faster than the blink of an eye. This technology will be used to produce compact solid-state circuits operating at Terahertz frequencies. Likely technology application would be to enable a new generation of sensors to enhance homeland security.

**Demonstration and Validation**—The AF’s demonstration and validation programs are comprised of system specific advanced technology integration efforts accomplished in an operational environment to help expedite transition from the laboratory to operational use. Example of the AF’s Demonstration and Validation effort is: The Command and Control System-Consolidated (CCS-C) program. The CCS-C will replace the aging S-Band Command and Control

Segment (CCS) that is currently used for the command and control of Military Satellite Communications satellites (MILSATCOM) by the 50th Space Wing (50SW) at Schriever AFB. The CCS-C system selected will drastically reduce the sustainment costs that would have been needed to maintain the aging CCS and offers tremendous enhancements to ease our satellite operators' workload, enabling accurate and efficient control of MILSATCOM satellites. The system is scheduled to take over command and control of MILSATCOM satellites at the end of fiscal year 2004.

**Engineering and Manufacturing Development**—The AF's engineering and manufacturing development (EMD) efforts are development projects which have not received approval for full-production. Examples of AF EMD efforts are: (1) the space Based infrared System Increment 1 Mission Control Station (MCS) achieved initial operational capability on 18 December 2001. The MCS consolidates Defense Support Program operations at Buckley AFB, Colorado, reducing manpower by 58 Percent and operations and maintenance costs by 25 percent. Subsequent upgrades to the MCS throughout fiscal year 2002 resulted in closure of the Air-Land Enhanced Reconnaissance and Targeting (ALERT) ground station on 25 September 2002, consolidating all space-based strategic and theater missile warning operations, realizing additional manpower and Operations and Maintenance funds savings. (2) Another example, the Fighter/Attack (F/A)-22 Program is developing the next generation air dominance fighter designed to penetrate enemy airspace and achieve a first look, first kill capability against multiple targets. The F/A-22's combination of stealth, supercruise, maneuverability, and integrated avionics, coupled with improved supportability, represents an exponential leap in warfighting capabilities and allows for the full realization of operational concepts that are vital to the 21st century Air Force. The F/A-22 will replace the F-15-C as the frontline USAF air superiority fighter with initial operational capability planned for December 2005. The F/A-22 has been in Engineering and Manufacturing Development (EMD) since 1991 and is currently meeting or exceeding all Key Performance Parameters. Significant program accomplishments in fiscal year 2002 include:

- ▶ Completed full-scale airframe static testing
- ▶ Completed 1st full-scale airframe lifetime fatigue test
- ▶ Initiated 2nd full-scale airframe lifetime fatigue test
- ▶ Completed assembly of (EMD) aircraft #4007, 4008, and 4009
- ▶ Completed avionics software Block 3.0 flight testing
- ▶ Completed F119 production engine configuration development testing
- ▶ Completed live fire testing on aircraft #4001
- ▶ Exceeded 2000 flight test hours on the EMD aircraft fleet

**Research, Development, Test, and Evaluation Management Support**—The AF's Research, Development, Test, and Evaluation (RDT&E) Management Support efforts include projects directed toward support of installation or operations required for general research and development use. Included would be test ranges, military construction, maintenance support of laboratories, operation and maintenance of military construction, maintenance support of laboratories, operation and maintenance of test aircraft and ships, and studies and analyses in support of the research and development program. Example of Air Force RDT&E management support is: The Major Test and Evaluation Investment program, which funds the planning, improvements and modernization for three national asset test centers having over \$10

billion of unique test facilities/capabilities operated and maintained by the AF for the Department of Defense (DoD) test and evaluation missions, and available to others having a requirement for their unique capabilities. The test capabilities and facilities are operated and maintained by the Air Force for the DoD test and evaluation missions, and are available to others having a requirement for their unique capabilities. Many efforts are contained within this program, but two examples are the Propulsion Wind Tunnel Upgrade at Arnold Engineering Development Center. This effort replaces outdated data acquisition, processing, control systems and drive motors. A second example is the Threat Simulator Development program, which supports many of the AF Electronic Warfare Test Processes. Current projects focus on improved Low Radar Cross Section threat modeling and simulation, and enhanced infrared and radio frequency countermeasures testing.

**Operational Systems Development**—The AF's operational system efforts include projects in support of development acquisition programs or upgrades in System Demonstration and Development (SDD). Examples of operational systems development are: (1) AIM-9X Sidewinder project which improves seeker performance, infrared counter-countermeasures, and kinematics of the AIM-9M short range air-to-air missile. Aim9X regains short, within visual range (WVR) first-shot, first-kill capability for the U.S. warfighter. Test and Evaluation efforts have been positive, 18 of 19 successful guided launches with 10 direct hits to target drones. Other notable accomplishments include continuation of flight test activities, such as, Operations/Operational Evaluation (OPEVAL) and Developmental Test (DT) assist, and low rate initial production (LRIP2) contract was awarded Nov 2001. (2) Another example is the Airborne Warning and Control System (AWACS) projects included Integrated Demand Assigned Multiple Assess (DAMA)/Global Air Traffic Management (GATM) Integrated Drive Generator (IDG) capability. IDG provides the AWACS system with the capabilities and certifications required to meet air traffic control requirements including Reduced Vertical Separation Minimum (RVSM), 8.33 KHz VHF Channel Spacing, Aircraft Collision Avoidance System (ACAS) with Mode-S Transponder, as well as the improved Satellite Communications (SATCOM) voice capability provided by DAMA. Initial System Development and Design began this year.

## General Funds

## Required Supplementary Information



## Disaggregated Statement of Budgetary Resources—General Funds

For the years ended September 30, 2002 and 2001 (\$ in thousands)

|  | <b>BUDGETARY RESOURCES</b> | <b>Other</b> | <b>Research,<br/>Development,<br/>Test &amp;<br/>Evaluation</b> | <b>Operation<br/>and<br/>Maintenance</b> |
|--|----------------------------|--------------|---|--|
| <b>Budget Authority:</b>                               |                            |              |   |  |
| Appropriations received                                | 398,770                    |              | 14,868,331  | 32,686,841                               |
| Net transfers (+/-)                                    | -382,758                   |              | 73,710  | 2,787,187                                |
| <b>Unobligated balance:</b>                            |                            |              |   |  |
| Beginning of period                                    | 2,746                      |              | 1,717,387   | 657,136                                  |
| Net transfers, actual (+/-)                            | -1                         |              | 7,000   | -18,461                                  |
| <b>Spending authority from offsetting collections:</b> |                            |              |   |  |
| Earned   |                            |              |   |  |
| Collected  | 10,232                     |              | 2,234,907   | 3,885,160                                |
| Receivable from Federal sources                        | -2,448                     |              | 41,117  | 245,627                                  |
| Change in unfilled customer orders                     |                            |              |   |  |
| Advance received                                       | 0                          |              | 93,487  | 15,852                                   |
| Without advance from Federal sources                   | 0                          |              | -12,238   | 11,896                                   |
| Subtotal   | <u>\$7,784</u>             |              | <u>\$2,357,273</u>  | <u>\$4,158,535</u>                       |
| Recoveries of prior year obligations                   | 0                          |              | 132,143   | 399,990                                  |
| Permanently not available                              | -2,679                     |              | -545,039  | -548,348                                 |
| <b>TOTAL BUDGETARY RESOURCES</b>                       | <b><u>\$23,862</u></b>     |              | <b><u>\$18,610,805</u></b>                                      | <b><u>\$40,122,880</u></b>               |
| <b>STATUS OF BUDGETARY RESOURCES</b>                   |                            |              |   |  |
| Obligations incurred:                                  |                            |              |   |  |
| Direct   | 11,300                     |              | 14,793,149  | 35,194,274                               |
| Reimbursable   | 7,784                      |              | 2,373,646   | 4,182,384                                |
| Subtotal   | <u>\$19,084</u>            |              | <u>\$17,166,795</u>   | <u>\$39,376,658</u>                      |
| Unobligated balance:                                   |                            |              |   |  |
| Apportioned  | 171                        |              | 1,373,329   | 143,695                                  |
| Exempt from apportionment                              | 4,607                      |              | 0   | 0  |
| Other available  | 0                          |              | 0   | 0  |
| Unobligated Balances Not Available                     | 0                          |              | 70,681  | 602,528                                  |
| Total, Status of Budgetary Resources                   | <b><u>\$23,862</u></b>     |              | <b><u>\$18,610,805</u></b>                                      | <b><u>\$40,122,881</u></b>               |
| <b>Relationship of Obligations to Outlays:</b>         |                            |              |   |  |
| Obligated Balance, Net – beginning of period           | 5,436                      |              | 5,760,646   | 9,624,979                                |
| Obligated Balance, Net – end of period:                |                            |              |   |  |
| Accounts receivable                                    | 0                          |              | -309,599  | -1,121,681                               |
| Unfilled customer order from Federal sources           | 0                          |              | -300,617  | -68,982                                  |
| Undelivered orders                                     | 3,327                      |              | 5,581,213   | 10,733,715                               |
| Accounts payable                                       | 4,732                      |              | 1,239,430   | 3,071,582                                |
| <b>Outlays:</b>  |                            |              |   |  |
| Disbursements  | 18,909                     |              | 16,555,993  | 35,729,491                               |
| Collections  | -10,232                    |              | -2,328,394  | -3,901,013                               |
| Subtotal   | <u>\$8,677</u>             |              | <u>\$14,227,599</u>   | <u>\$31,828,478</u>                      |
| Less: Offsetting receipts                              | 0                          |              | 0   | -121,154                                 |
| <b>NET OUTLAYS</b>                                     | <b><u>\$8,677</u></b>      |              | <b><u>\$14,227,599</u></b>                                      | <b><u>\$31,707,324</u></b>               |

| <b>Procurement</b>  | <b>Military Personnel</b> | <b>Military Construction/<br/>Family Housing</b> | <b>2002 Combined</b> | <b>2001 Combined</b> |
|---------------------|---------------------------|--|----------------------|----------------------|
| 23,489,909          | 22,758,228                | 2,127,776  | 96,329,855           | 87,803,883           |
| 438,813             | 2,028,650                 | 8,995  | 4,954,597            | 4,913,418            |
|                     |                           |  |                      | 0                    |
| 4,152,063           | 164,878                   | 509,077  | 7,203,289            | 7,105,053            |
| 125,333             | 26,845                    | -10,510  | 130,206              | -2,130,103           |
|                     |                           |  |                      |                      |
| 181,295             | 232,990                   | 7,001  | 6,551,584            | 4,875,191            |
| 13,481              | -23,269                   | -1   | 274,507              | 312,728              |
|                     |                           |  |                      |                      |
| -2,862              | 0                         | 0  | 106,478              | -41,657              |
| -836                | -3                        | 0  | -1,182               | 64,971               |
| <u>\$191,078</u>    | <u>\$209,718</u>          | <u>\$7,000</u>                                   | <u>\$6,931,387</u>   | <u>\$5,211,233</u>   |
| 397,275             | 112,531                   | 9,653  | 1,051,593            | 1,272,122            |
| -840,180            | -85,513                   | -40,654  | -2,062,413           | -1,996,394           |
| <u>\$27,954,291</u> | <u>\$25,215,337</u>       | <u>\$2,611,337</u>                               | <u>\$114,538,514</u> | <u>\$102,179,212</u> |
|                     |                           |  |                      |                      |
| 24,838,698          | 23,927,233                | 1,857,447  | 100,622,101          | 89,602,365           |
| 207,447             | 1,071,644                 | 7,000  | 7,849,904            | 5,373,560            |
| <u>\$25,046,145</u> | <u>\$24,998,877</u>       | <u>\$1,864,447</u>                               | <u>\$108,472,005</u> | <u>\$94,975,925</u>  |
|                     |                           |  |                      |                      |
| 2,909,707           | 101,771                   | 739,505  | 5,268,178            | 6,367,908            |
| 0                   | 0                         | 0  | 4,607                | 2,494                |
| 0                   | 0                         | 0  | -1                   | 1                    |
| -1,560              | 114,690                   | 7,385  | 793,725              | 832,884              |
| <u>\$27,954,292</u> | <u>\$25,215,338</u>       | <u>\$2,611,337</u>                               | <u>\$114,538,514</u> | <u>\$102,179,212</u> |
|                     |                           |  |                      |                      |
| 18,182,537          | 1,749,314                 | 1,726,258  | 37,049,171           | 33,410,761           |
| -47,650             | -3,036                    | 1  | -1,481,965           | -1,207,458           |
| -95,607             | 0                         | 0  | -465,207             | -466,389             |
|                     |                           |  |                      |                      |
| 15,650,443          | -66,323                   | 2,128,328  | 34,030,703           | 32,011,469           |
| 3,029,748           | 2,349,609                 | 43,564   | 9,738,663            | 6,711,552            |
|                     |                           |  |                      |                      |
| 24,281,828          | 24,378,681                | 1,409,161  | 102,374,064          | 89,687,692           |
| -178,434            | -232,990                  | -7,001   | -6,658,063           | -4,833,534           |
| <u>\$24,103,394</u> | <u>\$24,145,691</u>       | <u>\$1,402,160</u>                               | <u>\$95,716,001</u>  | <u>\$84,854,158</u>  |
| 0                   | 0                         | 0  | -121,154             | 0                    |
| <u>\$24,103,394</u> | <u>\$24,145,691</u>       | <u>\$1,402,160</u>                               | <u>\$95,594,847</u>  | <u>\$84,854,158</u>  |

**General Property, Plant, and Equipment  
Real Property Deferred Sustainment Tables**

As of September 30, 2002 (\$ in thousands)

| <b>Property Type</b>           | <b>Fiscal Year 2002<br/>Annual Sustainment</b> |                    |                   |
|--------------------------------|--|--------------------|-------------------|
|                                | <b>Required</b>                                | <b>Actual</b>      | <b>Difference</b> |
| Buildings and Structures (O&M) | 1,846,393                                      | 1,253,764          | \$592,629         |
| Military Family Housing        | 630,996  | 414,997            | 215,999           |
|                                | <b>\$2,447,389</b>                             | <b>\$1,668,761</b> | <b>\$808,628</b>  |

| <b>Property Type</b>           | <b>FY 2001</b>   | <b>FY 2002</b>   |
|--------------------------------|------------------|------------------|
| Buildings and Structures (O&M) | 128,740          | 592,629          |
| Military Family Housing        | 239,730          | 215,999          |
|                                | <b>\$368,470</b> | <b>\$808,628</b> |

| <b>Property Type</b>                 | <b>FY 2001</b> | <b>FY 2002</b> | <b>Change</b> |
|--------------------------------------|----------------|----------------|---------------|
| Buildings, Structures, and Utilities | \$21,200,000   | 21,000,000     | (\$200,000)   |

The change in the deferred sustainment amounts reflects that in FY 2001 the O&M Sustainment actuals were estimated, using the FY 01 methodology of recording 85 percent of the total of all maintenance, repair, and minor construction. In FY 2002 the O&M required amount is based on the draft DoD Financial Management Regulation, Volume 6B, Chapter 12, dated June 2002, using the Facilities Sustainment Model (FSM) with FY 2004 requirements, deflated to FY 2002. Comparing the Deferred Sustainment amounts for these two years may be largely irrelevant from a statistical perspective since different methodologies were used. FY 02 Sustainment requirements were determined and programmed based on 1% of AF plant replacement value.

O&M Sustainment was initially underfunded for FY 02 due primarily to a Program Budget Decision which redirected some Sustainment funds to other Air Force readiness requirements.

### Notes

MFH Deferred Sustainment is based upon a combination of historical expenditures for day-to-day maintenance and condition assessment surveys for MFH real property maintenance by contract. These requirements are part of the 1999 Family Housing Master Plan.

The Air Force does not maintain data on the cost to C1 for all facilities. The Installations' Readiness Report (IRR) highlights cost to C2 but that does not include the total AF backlog. Restoration and Modernization (R&M) requirements were therefore estimated for FY 02 and FY 01 based on the estimated Air Force backlog. This includes the total R&M (O&M) requirement projected for each year and non-Military Family Housing (MFH) and MFH MILCON requirements to C2 from the FY 01 and FY 00 IRR's, respectively. Figures do not include requirements for Research, Development, Test, and Evaluation facilities, nor Working Capital Fund, Non-appropriated Fund, or other non-O&M facilities.

### Real Property Condition Information

The readiness of Air Force facilities is assessed using the IRR. The IRR assigns C-ratings ranging from C-4 (worst) to C-1 (best) facilities aggregated in nine facility classes. The FY 01 IRR identified that 63 percent of Air Force facility classes were rated C-4 or C-3 (i.e., below minimal acceptable performance).

**National Defense Property, Plant, and  
Equipment Deferred Maintenance Amounts**  
As of September 30, 2001 (Amounts in Thousands)

|                       |                  |
|-----------------------|------------------|
| Aircraft              | \$40,487         |
| Other Weapons Systems | 113,206          |
| <b>Total</b>          | <b>\$153,693</b> |

The figures presented above are actual amounts for FY 02. The figures include amounts for the Active Air Force, Air National Guard, and the Air Force Reserve. Other Weapons Systems include engines (\$6.6 million); software (\$72.9 million); other major end items (\$5.3 million); non-Materiel Support Division (\$25.4 million); area, base, and manufacturing support (\$2.8 million); and storage (\$.2 million).

| <b>Schedule, Part A</b><br><b>DoD Intra-governmental Asset Balances</b><br>(\$ in thousands) | <b>Treasury Index</b> | <b>Fund Balance with Treasury</b> | <b>Accounts Receivable</b> | <b>Loans Receivable</b> | <b>Investments</b> | <b>Other</b>   |
|--|-----------------------|-----------------------------------|----------------------------|-------------------------|--------------------|----------------|
| Unidentifiable Federal Agency Entity<br>(Other than DoD entities)                            | 0                     |                                   | \$0                        |                         |                    |                |
| Executive Office of the President  | 11                    |                                   | \$3,493                    |                         |                    |                |
| Department of Agriculture  | 12                    |                                   | \$2,095                    |                         |                    |                |
| Department of Commerce   | 13                    |                                   | \$1,192                    |                         |                    |                |
| Department of the Interior   | 14                    |                                   | \$5,637                    |                         |                    |                |
| Department of Justice  | 15                    |                                   | \$11,340                   |                         |                    |                |
| Navy General Fund  | 17                    |                                   | \$25,752                   |                         |                    |                |
| United States Postal Service   | 18                    |                                   | \$515                      |                         |                    |                |
| Department of State  | 19                    |                                   | \$13,007                   |                         |                    |                |
| Department of the Treasury   | 20                    | \$47,942,751                      | \$2,999                    |                         | \$708              |                |
| Army General Fund  | 21                    |                                   | \$28,109                   |                         |                    | \$2,032        |
| Office of Personnel Management   | 24                    |                                   | \$18                       |                         |                    |                |
| Social Security Administration   | 28                    |                                   | \$181                      |                         |                    |                |
| Department of Veterans Affairs   | 36                    |                                   | \$2,449                    |                         |                    |                |
| General Services Administration  | 47                    |                                   | \$2,893                    |                         |                    |                |
| National Science Foundation  | 49                    |                                   | \$1,288                    |                         |                    |                |
| Central Intelligence Agency  | 56                    |                                   | \$517                      |                         |                    |                |
| Air Force General Fund   | 57                    |                                   |                            |                         |                    |                |
| Federal Emergency Management Agency  | 58                    |                                   | \$577                      |                         |                    |                |
| Environmental Protection Agency  | 68                    |                                   | \$66                       |                         |                    |                |
| Department of Transportation   | 69                    |                                   | \$48,777                   |                         |                    |                |
| Agency for International Development   | 72                    |                                   | \$14,781                   |                         |                    |                |
| Small Business Administration  | 73                    |                                   | \$1                        |                         |                    |                |
| Department of Health and Human Services  | 75                    |                                   | \$37                       |                         |                    |                |
| National Aeronautics and Space Administration  | 80                    |                                   | \$26,530                   |                         |                    |                |
| Department of Energy   | 89                    |                                   | \$15,933                   |                         |                    |                |
| Department of Education  | 91                    |                                   | \$489                      |                         |                    |                |
| US Army Corps of Engineers   | 96                    |                                   | \$89                       |                         |                    |                |
| Other Defense Organizations General Funds  | 97                    |                                   | \$211,392                  |                         |                    | \$1,311        |
| Other Defense Organizations Working Capital Funds  | 97-4930               |                                   | \$7,105                    |                         |                    |                |
| Army Working Capital Fund  | 97-4930.001           |                                   | \$833                      |                         |                    | \$45           |
| Air Force Working Capital Fund   | 97-4930.003           |                                   | \$15,060                   |                         |                    | \$1,600        |
| <b>Totals might not match reports</b>  | <b>TOTAL</b>          | <b>\$47,942,751</b>               | <b>\$443,155</b>           | <b>\$0</b>              | <b>\$708</b>       | <b>\$4,988</b> |

| <b>Schedule, Part B</b><br><b>DoD Intra-governmental Entity Liabilities</b><br>(\$ in thousands) | Treasury<br>Index | Accounts<br>Payable | Debts/<br>Borrowings<br>from Other<br>Agencies | Other              |
|--|-------------------|---------------------|--|--------------------|
| Department of Commerce   | 13                |                     |  | \$19,636           |
| Department of the Interior   | 14                |                     |  | \$26,765           |
| Department of Justice  | 15                |                     |  | \$0                |
| Department of Labor  | 16                |                     |  | \$327,805          |
| Navy General Fund  | 17                | \$60,070            |  | \$555              |
| United States Postal Service   | 18                |                     |  | \$1                |
| Department of the Treasury   | 20                |                     |  | \$1,592,696        |
| Army General Fund  | 21                | \$44,640            |  | \$5,673            |
| Office of Personnel Management   | 24                | (\$13,773)          |  | \$45,971           |
| General Services Administration  | 47                |                     |  | \$35,579           |
| Department of Transportation   | 69                |                     |  | \$51,537           |
| National Aeronautics and Space Administration  | 80                |                     |  | \$38,351           |
| Department of Energy   | 89                |                     |  | \$1,364            |
| US Army Corps of Engineers   | 96                | \$42                |  |                    |
| Other Defense Organizations General Funds  | 97                | \$103,280           | \$134  | \$33,154           |
| Other Defense Organizations Working Capital Funds  | 97-4930           | \$464,506           |  |                    |
| Army Working Capital Fund  | 97-4930.001       | \$1,004             |  |                    |
| Navy Working Capital Fund  | 97-4930.002       | \$11,688            |  |                    |
| Air Force Working Capital Fund   | 97-4930.003       | \$453,277           |  | \$0                |
| <b>Totals might not match reports</b>  | <b>TOTAL</b>      | <b>\$1,124,734</b>  | <b>\$134</b>                                   | <b>\$2,179,087</b> |

| <b>Schedule, Part C</b><br><b>DoD Intra-governmental Revenue and Related Costs</b><br><b>(\$ in thousands)</b> | <b>Treasury Index</b> | <b>Earned Revenue</b> |
|--|-----------------------|-----------------------|
| Executive Office of the President  | 11                    | \$23,602              |
| Department of Agriculture  | 12                    | \$296                 |
| Department of Commerce   | 13                    | \$9,292               |
| Department of the Interior   | 14                    | \$3,234               |
| Department of Justice  | 15                    | \$18,274              |
| Navy General Fund  | 17                    | \$227,187             |
| United States Postal Service   | 18                    | \$437                 |
| Department of State  | 19                    | \$68,003              |
| Department of the Treasury   | 20                    | \$6,478               |
| Army General Fund  | 21                    | \$259,932             |
| Office of Personnel Management   | 24                    | \$31                  |
| Social Security Administration   | 28                    | \$257                 |
| Department of Veterans Affairs   | 36                    | \$7,682               |
| General Services Administration  | 47                    | \$6,585               |
| National Science Foundation  | 49                    | \$45,986              |
| Central Intelligence Agency  | 56                    | \$130                 |
| Federal Emergency Management Agency  | 58                    | \$119                 |
| Environmental Protection Agency  | 68                    | \$405                 |
| Department of Transportation   | 69                    | \$94,240              |
| Agency for International Development   | 72                    | \$7,559               |
| Small Business Administration  | 73                    | \$1                   |
| Department of Health and Human Services  | 75                    | \$196                 |
| National Aeronautics and Space Administration  | 80                    | \$153,401             |
| Department of Energy   | 89                    | \$49,267              |
| Department of Education  | 91                    | \$353                 |
| US Army Corps of Engineers   | 96                    | \$334                 |
| Other Defense Organizations General Funds  | 97                    | \$1,194,048           |
| Other Defense Organizations Working Capital Funds  | 97-4930               | \$29,590              |
| Army Working Capital Fund  | 97-4930.001           | \$1,137               |
| Air Force Working Capital Fund   | 97-4930.003           | \$119,270             |
| <b>Total might not match reports</b>   | <b>TOTAL</b>          | <b>\$2,327,326</b>    |

| <b>Schedule, Part E</b><br><b>DoD Intra-governmental Non-exchange Revenues</b><br><b>(\$ in thousands)</b> | <b>Treasury Index</b> | <b>Transfers In</b> | <b>Transfers Out</b> |
|--|-----------------------|---------------------|----------------------|
| Navy General Fund  | 17                    |                     | \$4,733              |
| Army General Fund  | 21                    |                     | \$9,055              |
| Air Force Working Capital Fund   | 97-4930.003           | \$40,515            |                      |
| <b>Totals might not match reports</b>  | <b>TOTAL</b>          | <b>\$40,515</b>     | <b>\$13,788</b>      |

# General Funds

## Audit Opinion



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INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

January 6, 2003

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Air Force General Funds Fiscal Year 2002 Principal Financial Statements (Report No. D-2003-041)

The Chief Financial Officers Act of 1990, as amended, requires the Inspector General of the Department of Defense to audit the accompanying Consolidated Balance Sheet of the Air Force General Funds as of September 30, 2002 and 2001; the related Consolidated Statements of Net Cost and Changes in Net Position; and the Combined Statements of Financing<sup>1</sup> and Budgetary Resources. These principal financial statements are the responsibility of Air Force management. Air Force management is also responsible for implementing effective internal control and for complying with laws and regulations. We are also including the required reports on internal control and compliance with laws and regulations.

### **Disclaimer of Opinion on the Financial Statements**

The Air Force did not provide the financial statements on a timely basis in accordance with the terms of engagement. In addition, as discussed in the Attachment, previously identified material weaknesses in internal control and instances of noncompliance with laws and regulations continued to affect the current period. Because of those conditions, management acknowledged that the financial data reported in the financial statements were unreliable. These deficiencies would have precluded an audit opinion. As a result, we were unable to complete required audit procedures. Therefore, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the referenced financial statements and other information.<sup>2</sup>

### **Summary of Internal Control**

In planning and performing our audit, we considered the Air Force internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with Office of Management and Budget guidance, but not to express an opinion on internal control. Accordingly, we do not express

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<sup>1</sup> The Office of Management and Budget requires a Consolidated Statement of Financing, instead of the Combined Statement of Financing prepared by the Air Force.

<sup>2</sup> Other information includes Management's Discussion and Analysis, the Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information.

A regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.  
—Constitution of the United States, Article 1, Section 9

an opinion on internal control over financial reporting and compliance because management acknowledged at the beginning of our engagement that previously identified reportable conditions<sup>3</sup>, all of which are material, continued to exist and affect the current period. Therefore, we did not perform tests of Air Force General Fund internal control.<sup>4</sup> See the Attachment for details on material internal control weaknesses. A internal weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, noncompliance, or losses that are material in relation to the financial statements would be prevented or detected on a timely basis. Our internal control work would not necessarily disclose all material weaknesses.

### **Summary of Compliance With Laws and Regulations**

Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because management acknowledged at the beginning of our engagement that previously reported instances of noncompliance continue to exist and affect the current period. Therefore, we did not determine whether the Air Force General Funds complied with all applicable laws and regulations related to financial reporting. See the Attachment for details on compliance with laws and regulations.

In order for the DoD to comply with statutory reporting requirements and applicable financial systems requirements, the Under Secretary of Defense (Comptroller)/Chief Financial Officer is developing the DoD-wide financial management enterprise architecture. The DoD anticipates developing and implementing the financial management enterprise architecture by 2007. Until the architecture is developed and implemented, the Air Force will be unable to fully comply with the statutory reporting requirements.

We caution that other noncompliance may have occurred and not been detected. Further, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to express an opinion on compliance with applicable laws and regulations.

### **Management Responsibility**

Management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles,
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 are met,

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<sup>3</sup> Reportable conditions are matters coming to the auditor's attention that, in his or her judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in financial statements.

<sup>4</sup> Section 1008(d) of the FY 2002 National Defense Authorization Act requires the Inspector General of the Department of Defense to perform only the audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management.

*A regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.*  
—Constitution of the United States, Article 1, Section 9

- ensuring that Air Force General Funds financial management systems substantially comply with Federal Financial Management Improvement Act of 1996 requirements, and
- complying with applicable laws and regulations.



David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

Attachment

As stated

*A regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.*  
—Constitution of the United States, Article 1, Section 9

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## Reports on Internal Control and Compliance with Laws and Regulations

### Internal Control

Management is responsible for implementing effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; and that assets are safeguarded. We did not perform tests of Air Force internal control over financial reporting and we did not obtain sufficient evidence to support or express an opinion on internal control because management acknowledged at the beginning of our engagement that material weaknesses identified in prior periods continued to exist and affect the current period.\*

Previously identified reportable conditions, all of which are material, continue to exist in the following areas.

#### Financial Management Systems

- ▶ Because the Air Force had not implemented the U.S. Government General Ledger at the transaction level, internal control over recording transactions was not sufficient to ensure that all valid transactions were accurately recorded and all recorded transactions were accurately reported in the financial statements.
- ▶ The financial management systems could not report financial data in compliance with generally accepted accounting principles and OMB Bulletin 01-09, "Form and Content of Agency Financial Statements," September 25, 2001, due to limitations in the financial management processes and systems.

#### Intragovernmental Transactions

- ▶ Air Force internal control was not sufficient to ensure that all intragovernmental accounts receivable, accounts payable, and revenue transactions were eliminated.
- ▶ The Air Force was unable to reconcile intragovernmental accounts receivable or accounts payable, or reconcile intragovernmental revenue balances with its trading partners.

#### Disbursements, Collections, and Obligations

- ▶ Internal control was not sufficient to provide obligations incurred and recoveries of prior year obligations in accordance with governing directives.
- ▶ Internal control over matching disbursements to respective obligations and collections to respective receivables was not sufficient to ensure all disbursements were valid and accounts receivable and accounts payable balances were accurately stated.

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\* Section 1008(d) of the FY 2002 National Defense Authorization Act requires the Inspector General of the Department of Defense to perform only the audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management.

Attachment

## Accounting Policies and Practices

The Air Force had not implemented adequate procedures to support and document all journal vouchers in the Air Force General Funds.

### Operating Material and Supplies

The Air Force had not recorded operating materials and supplies balances in conformance with Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property." Internal control was not sufficient to ensure that operating materials and supplies were correctly reported. In addition, internal control was not sufficient to include all contractor-controlled, Government-furnished material.

### Depreciation

Air Force internal control was not sufficient to accurately depreciate Special Tools and Special Test Equipment.

## Compliance with Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because management acknowledged at the beginning of our engagement that previously reported instances of non-compliance continue to exist and affect the current period. Therefore, we did not determine whether the Air Force was in compliance with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to express an opinion on compliance with applicable laws and regulations.

**Statutory Financial Management Systems Reporting Requirements.** The Air Force is required to comply with the following financial management systems reporting requirements.

The Federal Financial Management Improvement Act of 1996 requires DoD to establish and maintain financial management systems that comply substantially with the Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In addition, the Federal Managers' Financial Integrity Act of 1982 requires DoD to evaluate the systems and to annually report whether those systems are in compliance with applicable requirements.

The Air Force acknowledged that many of its critical financial management and feeder systems do not comply substantially with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In an attempt to comply with statutory reporting requirements and applicable financial systems requirements, DoD plans to develop a DoD-wide financial management enterprise architecture. The architecture is intended to provide a "blueprint" of the Department's financial management systems and processes to initiate a comprehensive financial management reform effort. Until the architecture is developed, Air Force will be unable to fully comply with statutory reporting requirements. Therefore, we did not perform tests of compliance for these requirements.

# Working Capital Fund

## Principal Statements



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## Consolidated Balance Sheet—Working Capital Fund

As of September 30, 2002 and 2001 (\$ in thousands)

|   | <b>2002<br/>Consolidated</b> | <b>2001 Restated<br/>Consolidated</b> | <b>2001<br/>Consolidated</b> |
|---|------------------------------|---------------------------------------|------------------------------|
| <b>ASSETS (Note 2)</b>                                    |                              |                                       |                              |
| Intragovernmental:  |                              |                                       |                              |
| Fund Balance with Treasury (Note 3)                       | 463,312                      | 556,603                               | 556,603                      |
| Accounts Receivable (Note 5)                              | 628,025                      | 461,229                               | 461,229                      |
| Other Assets (Note 6)                                     | 0                            | 57,320                                | 57,320                       |
| Total Intragovernmental Assets                            | <u>\$1,091,337</u>           | <u>\$1,075,152</u>                    | <u>\$1,075,152</u>           |
| Cash and Other Monetary Assets (Note 7)                   | 4                            | 0                                     | 0                            |
| Accounts Receivable (Note 5)                              | 15,847                       | 105,290                               | 105,290                      |
| Inventory and Related Property (Note 9)                   | 13,991,959                   | 12,685,228                            | 11,056,384                   |
| General Property, Plant and Equipment (Note 10)           | 1,320,809                    | 1,258,047                             | 1,258,047                    |
| Other Assets (Note 6)                                     | 530,335                      | 468,474                               | 468,474                      |
| <b>TOTAL ASSETS</b>                                       | <u><u>\$16,950,291</u></u>   | <u><u>\$15,592,191</u></u>            | <u><u>\$13,963,347</u></u>   |
| <b>LIABILITIES (Note 11)</b>                              |                              |                                       |                              |
| Intragovernmental:  |                              |                                       |                              |
| Accounts Payable (Note 12)                                | 154,696                      | 143,833                               | 143,833                      |
| Other Liabilities (Note 15 & Note 16)                     | 11,384                       | 353,537                               | 353,537                      |
| Total Intragovernmental Liabilities                       | <u>\$166,080</u>             | <u>\$497,370</u>                      | <u>\$497,370</u>             |
| Accounts Payable (Note 12)                                | 1,791,467                    | 1,328,019                             | 1,328,019                    |
| Military Retirement Benefits and Other Employment-Related |                              |                                       |                              |
| Actuarial Liabilities (Note 17)                           | 247,750                      | 242,137                               | 242,137                      |
| Other Liabilities (Note 15 and Note 16)                   | 3,151,129                    | 3,111,789                             | 3,111,789                    |
| <b>TOTAL LIABILITIES</b>                                  | <u><u>\$5,356,426</u></u>    | <u><u>\$5,179,315</u></u>             | <u><u>\$5,179,315</u></u>    |
| <b>NET POSITION</b>                                       |                              |                                       |                              |
| Cumulative Results of Operations                          | 11,593,865                   | 10,412,876                            | 8,784,032                    |
| <b>TOTAL NET POSITION</b>                                 | <u><u>\$11,593,865</u></u>   | <u><u>\$10,412,876</u></u>            | <u><u>\$8,784,032</u></u>    |
| <b>TOTAL LIABILITIES AND NET POSITION</b>                 | <u><u>\$16,950,291</u></u>   | <u><u>\$15,592,191</u></u>            | <u><u>\$13,963,347</u></u>   |

The accompanying notes are an integral part of the financial statements.

## Consolidated Statement of Net Cost—Working Capital Fund

For the years ended September 30, 2002 and 2001 (\$ in thousands)

|  | <b><u>2002<br/>Consolidated</u></b> | <b><u>2001 Restated<br/>Consolidated</u></b> | <b><u>2001<br/>Consolidated</u></b> |
|--|-------------------------------------|--|-------------------------------------|
| <b>PROGRAMS COST</b>                     |                                     |  |                                     |
| Intragovernmental Gross Costs            | 4,864,103                           | 6,667,495                                    | 6,667,495                           |
| (Less: Intragovernmental Earned Revenue) | <u>-10,907,401</u>                  | <u>-11,541,277</u>                           | <u>-11,541,277</u>                  |
| Intragovernmental Net Costs              | <u>-\$6,043,298</u>                 | <u>-\$4,873,782</u>                          | <u>-\$4,873,782</u>                 |
| Gross Costs With the Public              | 5,367,308                           | 7,977,563                                    | 9,606,407                           |
| (Less: Earned Revenue From the Public)   | <u>-308,024</u>                     | <u>-434,044</u>                              | <u>-434,044</u>                     |
| Net Costs With the Public                | <u>\$5,059,284</u>                  | <u>\$7,543,519</u>                           | <u>\$9,172,363</u>                  |
| <b>NET COST OF OPERATIONS</b>            | <u><b>-\$984,014</b></u>            | <u><b>\$2,669,737</b></u>                    | <u><b>\$4,298,581</b></u>           |

*The accompanying notes are an integral part of the financial statements.  
See notes 1 and 19.*

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## Consolidated Statement of Changes in Net Position—Working Capital Fund

For the years ended September 30, 2002 and 2001 (\$ in thousands)

|   | <b>2002</b><br><b>Cumulative<br/>Results of<br/>Operations</b> | <b>Unexpended<br/>Appropriations</b> | <b>2001</b><br><b>Cumulative<br/>Results of<br/>Operations<br/>Restated</b> |
|---|--|--------------------------------------|---|
| <b>BEGINNING BALANCES</b>                       | 8,784,032  | 0                                    | 16,474,636  |
| Prior Period Adjustments (+/-)                  | 1,628,844  | 0                                    | -3,462,470  |
| <b>BEGINNING BALANCES, ADJUSTED</b>             | <b>\$10,412,876</b>  | <b>\$0</b>                           | <b>\$13,012,166</b>   |
| <b>BUDGETARY FINANCING SOURCES</b>              |  |                                      |   |
| Appropriations received                         | 0  | 32,886                               | 0   |
| Appropriations used                             | 32,886   | -32,886                              | 8,375   |
| Other budgetary financing sources (+/-)         | 0  | 0                                    | -92,576   |
| <b>OTHER FINANCING SOURCES</b>                  |  |                                      |   |
| Transfers-in/out without reimbursement (+/-)    | 36,886   | 0                                    | 30,218  |
| Imputed financing from costs absorbed by others | 127,203  | 0                                    | 124,432   |
| <b>TOTAL FINANCING SOURCES</b>                  | <b>\$196,975</b>   | <b>\$0</b>                           | <b>\$70,447</b>   |
| <b>NET COST OF OPERATIONS (+/-)</b>             | <b>-\$984,014</b>  | <b>\$0</b>                           | <b>\$2,669,737</b>  |
| <b>ENDING BALANCES</b>                          | <b>\$11,593,865</b>  | <b>\$0</b>                           | <b>\$10,412,876</b>   |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 20.

| <b>2001<br/>Unexpended<br/>Appropriations<br/>Restated</b> | <b>Prior Period<br/>Adjustment<br/>Cumulative<br/>Results of<br/>Operations</b> | <b>Prior Period<br/>Adjustment<br/>Unexpended<br/>Appropriations</b> | <b>2001<br/>Cumulative<br/>Results of<br/>Operations</b> | <b>2001<br/>Unexpended<br/>Appropriations</b> |
|--|---|--|--|---|
| 0  | 0   | 0  | 16,474,636   | 0   |
| 0  | 0   | 0  | -3,462,470   | 0   |
| <b>\$0</b>   | <b>\$0</b>  | <b>\$0</b>   | <b>\$13,012,166</b>                                      | <b>\$0</b>                                    |
| 0  | 0   | 0  | 0  | 0   |
| 0  | 0   | 0  | 8,375  | 0   |
| 0  | 0   | 0  | -92,576  | 0   |
| 0  | 2   | 0  | 30,216   | 0   |
| 0  | 0   | 0  | 124,432  | 0   |
| <b>\$0</b>   | <b>\$0</b>  | <b>\$0</b>   | <b>\$70,447</b>  | <b>\$0</b>                                    |
| <b>\$0</b>   | <b>-\$1,628,844</b>   | <b>\$0</b>   | <b>\$4,298,581</b>                                       | <b>\$0</b>                                    |
| <b>\$0</b>   | <b>\$1,628,844</b>  | <b>\$0</b>   | <b>\$8,784,032</b>                                       | <b>\$0</b>                                    |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 20.

## Combined Statement of Budgetary Resources—Working Capital Fund

For the years ended September 30, 2002 and 2001 (\$ in thousands)

|   | <b>2002<br/>Budgetary<br/>Financing<br/>Accounts</b> | <b>2002 Non-<br/>Budgetary<br/>Financing<br/>Accounts</b> | <b>2001<br/>Budgetary<br/>Financing<br/>Accounts<br/>Restated</b> |
|---|--|---|---|
| <b>BUDGETARY RESOURCES</b>                      |  |   |   |
| Budget Authority:                               |  |   |   |
| Appropriations received                         | \$32,886   | \$0   | \$8,375   |
| Contract authority                              | \$362,674  | \$0   | \$503,037   |
| Unobligated balance:                            |  |   |   |
| Beginning of period                             | \$191,172  | \$0   | \$55,603  |
| Net transfers, actual (+/-)                     | \$78,000   | \$0   | \$65,500  |
| Spending Authority from offsetting collections: |  |   |   |
| Earned  |  |   |   |
| Collected                                       | 15,835,543   | 0   | 15,579,478  |
| Receivable from Federal sources                 | 102,158  | 0   | -765,824  |
| Change in unfilled customer orders              |  |   |   |
| Advance received                                | -262,178   | 0   | 0   |
| Without advance from Federal sources            | 591,243  | 0   | 455,715   |
| Subtotal  | <u>\$16,266,766</u>                                  | <u>\$0</u>  | <u>\$15,269,369</u>   |
| Recoveries of prior year obligations            | 0  | 0   | 1,299   |
| Permanently not available                       | -140,972   | 0   | -10,001   |
| <b>TOTAL BUDGETARY RESOURCES</b>                | <b><u>\$16,790,526</u></b>                           | <b><u>\$0</u></b>   | <b><u>\$15,893,182</u></b>  |
| <b>STATUS OF BUDGETARY RESOURCES</b>            |  |   |   |
| Obligations incurred:                           |  |   |   |
| Direct  | 32,886   | 0   | -2,124,484  |
| Reimbursable                                    | 16,451,794   | 0   | 17,826,492  |
| Subtotal  | <u>\$16,484,680</u>                                  | <u>\$0</u>  | <u>\$15,702,008</u>   |
| Unobligated balance:                            |  |   |   |
| Apportioned                                     | 305,848  | 0   | -8,987  |
| Exempt from apportionment                       | 0  | 0   | 200,161   |
| Other available                                 | -2   | 0   | 0   |
| <b>TOTAL STATUS OF BUDGETARY RESOURCES</b>      | <b><u>\$16,790,526</u></b>                           | <b><u>\$0</u></b>   | <b><u>\$15,893,182</u></b>  |
| <b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>   |  |   |   |
| Obligated Balance, Net – beginning of period    | 3,490,438  | 0   | 2,791,001   |
| Obligated Balance, Net – end of period:         |  |   |   |
| Accounts receivable                             | -1,061,380   | 0   | -959,222  |
| Unfilled customer order from Federal sources    | -3,798,802   | 0   | -3,207,561  |
| Undelivered orders                              | 5,698,622  | 0   | 5,312,691   |
| Accounts payable                                | 2,665,736  | 0   | 2,344,528   |
| Outlays:  |  |   |   |
| Disbursements                                   | 15,777,541   | 0   | 15,311,380  |
| Collections                                     | <u>-15,573,364</u>                                   | <u>0</u>  | <u>-15,579,478</u>  |
| Subtotal  | <u>204,177</u>                                       | <u>0</u>  | <u>-268,098</u>   |
| Less: Offsetting receipts                       | 0  | 0   | 0   |
| <b>NET OUTLAYS</b>                              | <b><u>\$204,177</u></b>                              | <b><u>\$0</u></b>   | <b><u>-\$268,098</u></b>  |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 21.

| <b>2001 Non-Budgetary Financing Accounts Restated</b> | <b>2001 Budgetary Financing Accounts</b> | <b>2001 Non-Budgetary Financing Accounts</b> |
|---|--|--|
| \$0   | \$8,375                                  | \$0  |
| \$0   | \$503,037                                | \$0  |
|   |  |  |
| \$0   | \$55,603                                 | \$0  |
| \$0   | \$65,500                                 | \$0  |
|   |  |  |
| 0   | 15,579,478                               | 0  |
| 0   | -765,824                                 | 0  |
|   |  |  |
| 0   | 0  | 0  |
| 0   | 455,715                                  | 0  |
| <u>\$0</u>  | <u>\$15,269,369</u>                      | <u>\$0</u>                                   |
| 0   | 1,299                                    | 0  |
| 0   | -10,001                                  | 0  |
| <u>\$0</u>  | <u>\$15,893,182</u>                      | <u>\$0</u>                                   |
|   |  |  |
| 0   | -2,124,484                               | 0  |
| 0   | 17,826,492                               | 0  |
| <u>\$0</u>  | <u>\$15,702,008</u>                      | <u>\$0</u>                                   |
|   |  |  |
| 0   | -8,987                                   | 0  |
| 0   | 200,161                                  | 0  |
| 0   | 0  | 0  |
| <u>\$0</u>  | <u>\$15,893,182</u>                      | <u>\$0</u>                                   |
|   |  |  |
| 0   | 2,791,001                                | 0  |
| 0   | -959,222                                 | 0  |
| 0   | -3,207,561                               | 0  |
| 0   | 5,312,691                                | 0  |
| 0   | 2,344,528                                | 0  |
|   |  |  |
| 0   | 15,311,380                               | 0  |
| 0   | -15,579,478                              | 0  |
| <u>0</u>  | <u>-268,098</u>                          | <u>0</u>                                     |
| 0   | 0  | 0  |
| <u>\$0</u>  | <u>-\$268,098</u>                        | <u>\$0</u>                                   |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 21.

## Combined Statement of Financing—Working Capital Fund

For the years ended September 30, 2002 and 2001 (\$ in thousands)

**RESOURCES USED TO FINANCE ACTIVITIES**
**Budgetary Resources Obligated**

|   |                         |                         |                         |
|---|-------------------------|-------------------------|-------------------------|
| Obligations incurred  | 16,484,680              | 15,702,007              | 15,702,007              |
| Less: Spending authority from offsetting collections and recoveries (-) | -16,266,764             | -15,270,670             | -15,270,670             |
| Net obligations   | <u>217,916</u>          | <u>431,337</u>          | <u>431,337</u>          |
| <b>Other Resources</b>  |                         |                         |                         |
| Transfers in/out without reimbursement (+/-)                            | 0                       | -1,928                  | -1,928                  |
| Imputed financing from costs absorbed by others                         | 127,203                 | 124,432                 | 124,432                 |
| Other (+/-)   | -3                      | 0                       | 0                       |
| Net other resources used to finance activities                          | <u>127,200</u>          | <u>122,504</u>          | <u>122,504</u>          |
| <b>TOTAL RESOURCES USED TO FINANCE ACTIVITIES</b>                       | <b><u>\$345,116</u></b> | <b><u>\$553,841</u></b> | <b><u>\$553,841</u></b> |

**RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS**

Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided

|   |                            |                           |                           |
|---|----------------------------|---------------------------|---------------------------|
| Undelivered Orders (-)  | -385,929                   | -173,540                  | -173,540                  |
| Unfilled Customer Orders  | 329,064                    | 455,715                   | 455,715                   |
| Resources that finance the acquisition of assets                  | -1,402,468                 | 1,512,295                 | 3,141,139                 |
| Total resources used to finance the net cost of operations        | -1,459,333                 | 1,920,513                 | 3,549,357                 |
| <b>TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS</b> | <b><u>-\$1,114,217</u></b> | <b><u>\$2,474,354</u></b> | <b><u>\$4,103,198</u></b> |

**COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:**
**COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS**

|  |                |                |                |
|--|----------------|----------------|----------------|
| Other (+/-)  | 5,613          | 43,246         | 43,246         |
| Total components of Net Cost of Operations that will require or generate resources in future periods | <u>5,613</u>   | <u>43,246</u>  | <u>43,246</u>  |
| <b>COMPONENTS NOT REQUIRING OR GENERATING RESOURCES</b>  |                |                |                |
| Depreciation and amortization  | 124,590        | 145,844        | 145,844        |
| Revaluation of assets or liabilities (+/-)   | 0              | 3,901          | 3,901          |
| Other (+/-)  | 0              | 2,392          | 2,392          |
| Total components of Net Cost of Operations that will not require or generate resources               | <u>124,590</u> | <u>152,137</u> | <u>152,137</u> |

|   |                          |                           |                           |
|---|--------------------------|---------------------------|---------------------------|
| <b>TOTAL COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b> | <b><u>\$130,203</u></b>  | <b><u>\$195,383</u></b>   | <b><u>\$195,383</u></b>   |
| <b>NET COST OF OPERATIONS</b>   | <b><u>-\$984,014</u></b> | <b><u>\$2,669,737</u></b> | <b><u>\$4,298,581</u></b> |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 22.

# Working Capital Fund

## Footnotes to the Principal Statements

### Note 1. Significant Accounting Policies

#### 1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the United States Air Force, Working Capital Fund (WCF), as required by the Chief Financial Officers (CFOs) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the Air Force WCF in accordance with "Department of Defense Financial Management Regulation" (DoDFMR), the Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements" and to the extent possible federal generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the Air Force WCF is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that is no longer classified. The Air Force WCF's financial statements are in addition to the financial reports that are prepared by the United States Air Force pursuant to OMB directives to monitor and control the Air Force's use of budgetary resources.

The Air Force WCF is unable to implement all elements of Federal (GAAP) and the OMB Bulletin No. 01-09 due to limitations of its financial management processes and systems, including non-financial feeder systems and processes. Reported values and information for the Air Force WCF's major asset and liability categories are derived largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, the Air Force WCF cannot currently implement every aspect of Federal GAAP and the OMB Bulletin No. 01-09. The Air Force WCF continues to implement process and system improvements addressing the limitations of its financial and non-financial feeder systems. A more detailed explanation of these financial statement elements is provided in the applicable footnote.

There are other instances when the Air Force WCF has reviewed the intent of the standard and applied it in a manner consistent with the standard, but the auditors interpret the standard differently. Financial statement elements impacted include financing payments under fixed price contracts, operating materials and supplies (OM&S), and disposal liabilities.

#### 1.B. Mission of the Reporting Entity

The United States Air Force was created on September 18, 1947, by the National Security Act of 1947. The National Security Act Amendments of 1949 established the Department of Defense (DoD) and made the Air Force a department within DoD. The overall mission of the Department is to organize, train, and equip armed forces to deter aggression

and, if necessary, defeat aggressors of the United States and its allies. The overall mission of the Air Force is to defend the United States through control and exploitation of air and space.

The stock and industrial revolving fund accounts were created by the National Security Act of 1947, as amended in 1949 and codified in Title 10, U.S.C., Section 2208. The revolving funds were established as a means to more effectively control the cost of work performed by DoD. The DoD began operating under the revolving fund concept as early as July 1, 1951.

## 1.C. Appropriations and Funds

The Air Force's funds are divided into the general, working capital (revolving funds), trust, special, and deposit funds. These appropriations and funds are used to fund and report how the resources have been used in the course of executing the Air Force's missions.

Working Capital funds (WCF) (revolving funds) receive their initial working capital through an appropriation or a transfer of resources from existing appropriations or funds and use those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders. The Defense Working Capital Fund (DWCF) operates with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The activities provide goods and services on a reimbursable basis. Receipts derived from operations generally are available in their entirety for use without further congressional action. Air Force systems are not transaction-driven for budgetary accounts, therefore, in some cases proprietary and statistical accounts are used to develop the Report on Budget Execution, SF133 and Statement of Budgetary Resources for reporting budgetary data.

## Supply Management

The Air Force Stock Funds were established within the DoD under 10 U.S.C. 2208, as described in DoD Financial Management Regulation 7000.14-R, to finance inventories of supplies. Most inventories of supplies are financed by use of a stock fund. Exceptions include an item financed with a procurement appropriation or when financing by other means has been deemed to be more economical and efficient. A stock fund operates as a revolving fund acquiring inventories with funds received from prior sales to customers.

There are four active business activities in the Supply Management Activity Group (SMAG). They are: Materiel Support Division (MSD), General Support Division (GSD), Medical-Dental Division and Academy Division. In FY01 the Fuels Division was taken over by the Defense Energy Support Center, therefore all activity within the Fuels Division is residual. Troop Support is also a residual activity.

## Depot Maintenance

The Air Force Depot Maintenance Activity Group performs manufacturing, development and test work as well as aviation maintenance. Primarily supporting Air Force organizations, DMAG also supports other DoD components, government agencies, and foreign governments. The DMAG environment is rapidly changing. Weapons systems embodying new material and technologies require new maintenance processes while improvements in reliability reduce the frequency of maintenance for many items. The net result requires flexibility in addressing both wartime and peacetime workload changes. The DMAG achieves this flexibility by employing the unique strengths of organic (in-house) and contractor repair sources.

## Transportation

The unique transportation responsibilities of Air Mobility Command (AMC) include the executive travel mission and operation of other operational support aircraft, the air weather service, AMC training, AMC base operations, tanker operations, and other miscellaneous AMC functions. The Air Force Transportation Defense Business Operations Fund (DBOF) was established during FY 1993 and disestablished in FY 1995 in accordance with the DWCF improvement plan. Only residual accounting of unliquidated balances remain, with expected close-out during FY03.

## Information Services

### Air Force Central Design Activities

The Air force Central Design Activities (CDAs) provide software design, development, maintenance, and technical support services. As of October 1, 1995, the Air Force CDA business area transferred to DBOF. This transfer complied with Program Budgeting Document (PBD) 433 in expanding the Information Services Business Area. Transfer procedures were set forth in DFAS-Arlington memo dated May 3, 1995. The Central Design Activities included the Standard Systems Group and the Materiel Systems Group. Prior to this transfer, the CDAs were funded by Air Force Operations and Maintenance funds. During FY 1996 DFAS-Denver provided only interim accounting support because the CDAs' accounting support was in transition to the Industrial Fund Accounting System (IFAS) and subsequent transfer to the Pensacola Field Site. In FY 1997, the CDAs went on-line with IFAS and all financial reports, excluding the Audited Financial Statements (AFS), are prepared by DFAS-Cleveland and forwarded to DFAS-Denver for inclusion with Air Force WCF statements. In FY 2002, DFAS-Denver took over the responsibility of all monthly CDAs' financial reporting and the AFS.

### United States Transportation Command (USTC)

For AFS purposes only, USTC is not reported within Air Force Working Capital Funds. The Office of the Under Secretary Defense, Chief Financial Officer, directed in fiscal year 1999, the reporting of USTC with Other Defense Organizations Working Capital Fund Consolidated statements submitted by DFAS-Indianapolis. The USTC remains part of the Air Force Budget operations for all other financial reporting.

### Air Force Working Capital Fund Component

The Air Force Component Activity's purpose is to act as a balancing/adjusting column for Air Force WCF. The January 21, 1997 memorandum, "Policy and Procedures for Cash Management Working Capital Funds (DWCF)," established the "Component Level Adjustment" column. Additional DFAS-Arlington memorandums dated January 21, 1997, "Operating Policy and Procedures for the Management of Defense Working Capital Funds (DWCF) Fund Balance with Treasury Management and Contract Authority," and January 28, 1997, "Entries to Establish Defense Working Capital (DWCF) Fund Balance with Treasury at the Air Force subnumbered Account Level," provided specific and detailed instructions/procedures to maintain accountability for fund balances with Treasury. Undistributed disbursements, collections, and other amounts that cannot be identified to a functional area within the respective WCF shall be reported in this column.

Operations of the activities within the Air Force WCF are based on policies and procedures that include:

**(1) Funding Authority.** Prior to FY 1992, industrial fund activities were not issued funding documents. Activities now receive obligation authority for customer orders from the Air Force Deputy Assistant Secretary, Budget (SAF/FMB). The total costs that can be incurred are a function of the cost goals applied to the actual customer funded workload.

**(2) Minor Construction Funding.** Policy and procedures have been changed to fund minor construction projects that cost \$100,000 or more, but less than \$300,000, through a separate section of the capital budget and depreciate them over a 20-year period.

**(3) Software Development Costs.** Policy and procedures have been changed to move the development costs of new software that meets capitalization requirements to the capital budget. Software will be amortized after release.

**(4) Capital Budgeting.** Activity group budgets are segregated into operating and capital budgets. Any investment in equipment, software, minor construction, and other management improvements that meet capitalization requirements are funded through the capital budget and the cost depreciated/amortized over the relevant life cycle.

**(5) Asset Capitalization and Depreciation.** The assets of the industrial and stock funds were transferred to DBOF and subsequently to WCF. The capital assets, excluding land, which exceed a unit cost of \$100,000 or more, are subject to depreciation. In addition, capital assets previously capitalized using the established thresholds for prior years will continue to be depreciated, if depreciation was being recorded prior to the increase to the \$100,000 threshold.

**(6) Rates and Prices.** All Air Force activity groups within WCF are expected to set their rates and prices based upon full cost recovery ensuring that cost reductions made by an activity will be passed on to the customers. Rates and prices normally will not change during the year of execution, but occasionally do change based on certain world situations. If there is a need for a price change in Depot Maintenance, the authority is requested from HQ Air Force Materiel Command.

The FY 2002, Air Force DWCF operations encompass three activity groups: Supply Management, Depot Maintenance, and Information Services. These activity groups use their resources to finance the initial cost of products or services for activities of the United States government, primarily those of the DoD. Work is generated by the acceptance of customer orders from ordering activities.

## 1.D. Basis of Accounting

The Air Force's Working Capital Funds generally record transactions on an accrual accounting basis as is required by Federal GAAP. However, some of the Air Force's financial and non-financial feeder systems and processes are not designed to collect and record financial information on the full accrual accounting basis. The Air Force WCF has undertaken efforts to determine the actions required to bring all of its financial and non-financial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (USSGL). Until such time as all of the processes are updated to collect and report financial information as required by Federal GAAP, some of the Air Force WCF's financial data will be based on budgetary transactions (obligations, disbursements, and collections), and non-financial feeder systems. For example, most of information presented on the Statement of Net Cost is based on accrued costs; however, some of this information is based on obligations and disbursements.

Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds. However, the cash basis of accounting may be followed if the reported activity and balances are not materially significant. In addition to the accrual basis of accounting, Depot Maintenance also uses the full absorption accounting principal. During FY 1996, DFAS-DE, SAF/FMB, and OSD/FM jointly agreed on the use of this principal by Depot Maintenance.

This requires that overhead costs such as depreciation and bad debt expenses are included in the cost of services sold. The effect of known intrafund transactions are eliminated.

The Air Force uses several service-unique general ledger structures plus data converted from the Defense Business Management System (DBMS). The financial statements depicted are derived from supply, maintenance and accounting records utilizing the Air Force service and DBMS-unique general ledger structures. The activity groups' general ledger accounts are "crosswalked" to the USSGL chart of accounts to produce the financial statements.

In addition, the Air Force identifies programs based upon the major appropriation groups provided by Congress. The Air Force is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from becoming overly voluminous.

The asset accounts used to prepare the statements are categorized as either entity or nonentity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Nonentity accounts are assets that are held by an entity are not available for use in the operations of the entity.

Material disclosures are provided at Note 10.

## 1.E. Revenues and Other Financing Sources

The Under Secretary of Defense (Comptroller) directed, per memorandum dated January, 1992, all services to use the percentage of completion accounting method to recognize revenue and expenses. The DoD 7000.14-R, Financial Management Regulation, Chapter 11B, January 1995, also prescribes this method of accounting.

Each working capital activity group recognizes revenue in the following manner:

**Supply Management.** Air Force Supply Management revenue is recognized at the point of sale under constructive delivery terms (normally when an item is released from inventory or delivered to the customer). Foreign Military Sales (FMS) transactions additionally require proof of shipment before revenue is recognized. Generally, Supply Management revenue consists of sales at standard prices, less sales return. Sales of Materiel Support Division items are at exchange price. The Medical-Dental division and the Air Force Academy Store add surcharges to their billings rather than include a surcharge in the standard price. Intra-division Supply Management Sales have been eliminated. Cash discounts and interfund retail stock loss allowances are additional revenue.

**Depot Maintenance.** Current revenue recognition for Organic DMAG is the Incremental Revenue Recognition (IRR) method. This is based on completed units times the sales rate rather than the percentage of completion method. Organic DMAG will use the percentage of completion method when the Depot Maintenance Accounting and Production System (DMAPS) is fully operational at Ogden Air Logistics Center (ALC) in the first quarter of FY2003. DMAPS is scheduled to be implemented at the other two ALCs, Oklahoma City and Warner Robins, by the end of FY 2003.

Revenue recognition for Contract DMAG is based on units produced times the Unit Sales Price (USP) and does not recognize IRR at this time. Contract DMAG is scheduled to close at the end of FY2004.

**Information Services.** The Information Services Activity Group (ISAG) recognizes revenue in one of two ways as a service type organization based on the service level agreement between the customer and the provider. ISAG uses completed contract and in some instances the percentage of completion method.

## 1.F. Recognition of Expenses

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because the Air Force's financial and non-financial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, and environmental liabilities. Expenditures for capital and other long-term assets are not recognized as expenses in the Air Force WCF's operations until depreciated in the case of Property, Plant and Equipment (PP&E) or consumed in the case of Operating Materials and Supplies (OM&S). Certain expenses, such as annual and military leave earned but not taken, are financed in the period in which payment is made. Operating expenses were adjusted as a result of the elimination of balances between DoD Components. See Note 19.I Intragovernmental Expenses and Revenue for disclosure of adjustment amounts. Net increases or decreases in unexpended appropriations are recognized as a change in net position.

## 1.G. Accounting for Intra-governmental Activities

The Air Force, as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the Air Force as though the agency was a stand-alone entity.

The Air Force's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related costs are not apportioned to federal agencies. The Air Force's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through budget appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Department of the Treasury does not allocate such interest costs to the benefiting agencies.

The Air Force's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The Air Force funds a portion of the civilian and military pensions. Reporting civilian pension under CSRS and FERS retirement systems is the responsibility of Office of Personnel Management (OPM). The Air Force recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by OPM in the Statement of Net Cost; and recognizes corresponding imputed revenue for the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

The Department reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. The Department recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization column of the DoD Agency-wide statements.

To prepare reliable financial statements, transactions occurring between components or activities within the DoD or between two or more federal agencies must be eliminated. However, the Air Force, as well as the rest of the federal

government, cannot accurately identify all intragovernmental transactions by customer. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between components or activities of the Air Force WCF. For FY 1999 and beyond, seller entities within the Department provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. Intra-DoD intragovernmental balances were then eliminated.

The Department of the Treasury, Financial Management Service (FMS) is responsible for eliminating transactions between the Department and other federal agencies. In September 2000, the FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The Department was not able to fully implement the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. The Air Force, however, was able to implement the policies and procedures contained in the "Intragovernmental Fiduciary Transactions Accounting Guide," as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide," for reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from the United States (U.S.) Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with the OPM.

## 1.H. Transactions with Foreign Governments and International Organizations

Each year, the DoD Components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the "Arms Export Control Act of 1976." Under the provisions of the Act, the Department has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Customers may be required to make payments in advance.

## 1.I. Funds with the U.S. Treasury

The Air Force's financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at Defense Finance and Accounting Service (DFAS) and Military Services and U.S. Army Corps of Engineers (USACE) disbursing stations, as well as Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic funds transfers, interagency transfers and deposits.

In addition, the DFAS sites and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received and disbursements issued. The Department of the Treasury then records this information to the applicable Fund Balance With Treasury (FBWT) account maintained in the Treasury's system. Differences between the Air Force's recorded balance in the FBWT account and Treasury's FBWT sometimes result and are subsequently reconciled.

Fund Balances with Treasury are maintained at the Air Force DWCF corporate business area today. In 1992, when the Defense Business Operating Fund was established, the FBWT was moved from the Air Force level to the Department of Defense level. In 1996, the DWCF was established and the FBWT was given back to the Air Force level. However, allocations of FBWT was at a lower level than the level transferred out. (The cash balance had been maintained at 10 days worth of cash, but what was allocated back was 3 days worth of cash. The days are based on the average of cash needed to pay vendors). The fund has been "under funded" since that time.

Material Disclosures are provided at Note 3. Differences are caused by in-transit disbursements and unmatched disbursements (which are not recorded in the accounting offices' detail-level records).

### 1.J. Foreign Currency

Not applicable.

### 1.K. Accounts Receivable

As presented in the Balance Sheet statement, Accounts Receivable includes Accounts Receivables, Claims Receivables, and Refunds Receivable from other Federal entities or from the Non-federal entities. Allowances for Loss on Accounts Receivable due from Non-federal entities are based upon analysis of collection experience by fund type. The Department does not recognize an Allowance for Loss on Accounts Receivable amounts from another Federal agency. Claims against another federal agency are to be resolved between the agencies. If the claim cannot be resolved by the agencies involved, it should be referred to the General Accounting Office. Only Supply Management allows for Allowance for Loss Accounts Receivable amounts based upon analysis of historical data from prior year Accounts Receivable balances, write-offs, and collection policy.

Material disclosures are provided at Note 5.

### 1.L. Loans Receivable

Not applicable.

### 1.M. Inventories and Related Property

Inventory data is maintained in logistics systems designed for material management purposes. Inventories are reported at approximate historical cost based on Latest Acquisition Cost (LAC) adjusted for holding gains and losses. The Department uses the LAC method because its inventory systems were designed for material management rather than accounting. The systems provide accountability and visibility over inventory items. They do not maintain the historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property." Neither can they directly produce financial transactions using the United States Government Standard General Ledger (USSGL), as required by the Federal Management Improvement Act of 1996 (P.L. 104-208). Approximately 60% of the General Support Division is managed in the Standard Base Supply System using a Moving Average Cost for the value of the inventory. This change was effective October 2000. The remaining 40% of the GSD inventory is managed in the Stock Control and Distribution System using the LAC method for valuation. Within the Materiel Support Division, inventory is valued at either LAC or carcass. Carcass value is calculated within the pricing system.

Inventory values reported in the financial statements are derived from logistics systems designed for material management purposes. The General Support Division systems do value inventory at moving average, however, the Material Support Division systems do not maintain the historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property." All the inventory systems provide management with accountability information and visibility over inventory items. These logistics systems support the categorization of inventory as: held for sale, held in reserve for future sale, or excess, obsolete, and unserviceable, yet the business practices in the supply community do not use these categories. Additionally, past audit results have led to uncertainties about the completeness and existence of the inventory quantities used to derive the balances reported in the financial statements.

Only the Supply Management Activity Group maintains inventories. Gains and losses resulting from valuation changes for inventory items are recognized and reported in the Statement of Net Cost and included in the calculation of Cost of

Goods Sold. To calculate the allowances for gain or loss on inventories, an inventory worksheet is prepared monthly for each fund code within the Supply Management Activity Group.

SFFAS No. 3 distinguishes between "Inventory held for sale" and "Inventory held in reserve for future sale." There is no management or valuation difference between the two USSGL accounts. Further, the DoD manages only military or government specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The Department holds material based on military need and support for contingencies. Therefore, the Department does not attempt to account separately for items held for "current" or "future" sale.

Related property includes Operating Materials and Supplies (OM&S) and stockpile materials. The OM&S including munitions not held for sale, are valued at standard purchase price. The department uses the consumption method of accounting for OM&S, for the most part, expensing material when it is issued to the end user. Where current systems cannot fully support the consumption method, the Department uses the purchase method – that is, expensed when purchased. For FY 2002, the Department reported significant amounts using the purchase method either because the systems could not support the consumption method or because management deems that the item is in the hands of the end user.

The Department implemented new policy in FY 2002 to account for condemned material (only) as "Excess, Obsolete, and Unserviceable." The net value of the condemned material is zero, because the costs of disposal are greater than the potential scrap value. Potentially redistributable material, presented in previous years as "Excess, Obsolete, and Unserviceable," is now included in "Held for Use" or "Held for Repair" categories according to its condition.

In addition, past audit results identified uncertainties about the completeness and existence of quantities used to produce the reported values.

Material disclosures related to inventory and related property are provided at Note 9.

## 1.N. Investments in U.S. Treasury Securities

Not applicable.

## 1.O. General Property, Plant and Equipment

General property, plant, and equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements, when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. Also, improvement costs over the DoD capitalization threshold of \$100,000 for General PP&E are required to be capitalized. All General PP&E, other than land, is depreciated using the straight-line method. Land is not depreciated.

Prior to FY 1996, General PP&E with an acquisition cost of \$15,000, \$25,000, and \$50,000 for FYs 1993, 1994, and 1995 respectively, and an estimated useful life of 2 or more years was capitalized. These assets remain capitalized and are reported on WCF financial statements. General PP&E previously capitalized at amounts below \$100,000 were written off General Fund financial statements in FY 1998.

When it is in the best interest of the government, the Air Force provides to contractors government property necessary to complete contract work. Such property is either owned or leased by the Air Force, or purchased directly by the contrac-

for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such should be included in the value of General PP&E reported on the Air Force's Balance Sheet. The Department recently completed a study that indicates the value of General PP&E that meets the capitalization requirement and presently in the possession of contractors, is not material to the Department's financial statements. Regardless, the Department is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the Air Force currently reports only government property in the possession of contractors that is maintained in the Air Force's property systems.

For entities operating as business type activities (WCFs), all PP&E used in the performance of their mission is categorized as General PP&E, whether or not it meets the definition of any other PP&E categories. National Defense PP&E, Heritage Assets and Stewardship Land owned/maintained on a WCF installation are reported in the Supplemental Stewardship Report of the applicable military department.

Material disclosures are provided at Note 10.

### 1.P. Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances or prepayments and reported as an asset on the Balance Sheet. Advances and prepayments are recognized as expenditures and expenses when the related goods and services are received.

### 1.Q. Leases

Not applicable.

### 1.R. Other Assets

The Air Force conducts business with commercial contractors under two primary types of contracts-fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that these long-term contracts can cause, the Air Force provides financing payments. One type of financing payment that the Air Force makes, for real property, is based upon a percentage of completion. In accordance with SFFAS No 1., "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line and in Note 10, General PP&E, Net. In addition, based on the provision of the Federal Acquisition Regulations, the Air Force makes financing payments under fixed price contracts that are not based on a percentage of completion. The Air Force reports these financing payments as advances or prepayments in the "Other Assets" line item. The Air Force treats these payments as advances or prepayments because the Air Force becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Air Force is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Air Force for the full amount of the advance. The Department has completed a review of all applicable federal accounting standards; applicable public laws on contract financing; Federal Acquisition Regulation Parts 32, 49, and 52; and the OMB guidance in 5 Code of Federal Regulations Part 1315, "Prompt Payment." The Department has concluded that SFFAS No. 1 does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate.

## 1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the Air Force. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable and the amount of loss can be reasonably estimated. Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The Air Force's loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, ship and vehicle accidents; medical malpractice; property or environmental damages; and contractual disputes.

## 1.T. Accrued Leave

Civilian annual leave and military leave that have been accrued and not used as of the balance sheet date are reported as liabilities. The liability reported at the end of the fiscal year reflects the current pay rates.

## 1.U. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of authority, which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which legal liabilities for payments have not been incurred.

Cumulative results of operations for WCF represent the excess of revenues over expenses less refunds to customers and returns to the U.S. Treasury since fund inception.

## 1.V. Treaties for Use of Foreign Bases

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. The DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements is retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the Department. Therefore, in the event treaties or other agreements are terminated whereby use of foreign bases is no longer allowed, losses will be recorded for the value of any nonretrievable capital assets after negotiations between the United States and the host country have been concluded to determine the amount to be paid the United States for such capital investments.

## 1.W. Comparative Data

Beginning in FY 2001, the Air Force presents the current and previous year's financial data for comparative purposes. This data is presented in the financial statements, as well as in the notes to the principal statements.

In FY 2002, the Department modified the financial statement presentation for the Statements of Net Cost, Changes in Net Position, and Financing. As a result, the Departments' statements during this reporting period may not always lend themselves to comparative analysis. In some instances, amounts on the statements were reported on one financial line in FY 2001 and split into multiple financial lines for FY 2002, in accordance with OMB's guidance.

## 1.X. Unexpended Obligations

The Air Force records obligations for goods and services that have been ordered but not yet received. No liability for payment has been established in the financial statements because goods/services have yet to be delivered.

## Note 2. Nonentity and Entity Assets

| As of September 30,                    | 2002        |                      |                      | 2001                 |  |
|--|-------------|----------------------|----------------------|----------------------|--|
|  | Nonentity   | Entity               | Total                |                      |  |
| (Amounts in thousands)                 |             |                      |                      |                      |  |
| <b>Intra-governmental Assets:</b>      |             |                      |                      |                      |  |
| Fund Balance with Treasury             | \$ 0        | \$ 463,312           | \$ 463,312           | \$ 556,603           |  |
| Accounts Receivable                    | 0           | 628,025              | 628,025              | 461,229              |  |
| Other Assets                           | 0           | 0                    | 0                    | 57,320               |  |
| <b>Total Intra-governmental Assets</b> | <b>\$ 0</b> | <b>\$ 1,091,337</b>  | <b>\$ 1,091,337</b>  | <b>\$ 1,075,152</b>  |  |
| <b>Non-Federal Assets:</b>             |             |                      |                      |                      |  |
| Cash and Other Monetary Assets         | \$ 0        | \$ 4                 | \$ 4                 | \$ 0                 |  |
| Accounts Receivable                    | 0           | 15,847               | 15,847               | 105,290              |  |
| Inventory & Related Property           | 0           | 13,991,959           | 13,991,959           | 11,056,384           |  |
| General Property, Plant and Equipment  | 0           | 1,320,809            | 1,320,809            | 1,258,047            |  |
| Other Assets                           | 0           | 530,335              | 530,335              | 468,474              |  |
| <b>Total Non-Federal Assets</b>        | <b>\$ 0</b> | <b>\$ 15,858,954</b> | <b>\$ 15,858,954</b> | <b>\$ 12,888,195</b> |  |
| <b>Total Assets:</b>                   | <b>\$ 0</b> | <b>\$ 16,950,291</b> | <b>\$ 16,950,291</b> | <b>\$ 13,963,347</b> |  |

## Other Information

### Relevant Information for Comprehension

Assets are categorized as:

- Entity assets consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations.
- Nonentity assets are assets that are held by an entity, but are not available for use in the operations of the entity.

### Note Reference

For Additional Line Item discussion, see:

- Note 3, Fund Balance with Treasury
- Note 5, Accounts Receivable
- Note 6, Other Assets
- Note 9, Inventory and Related Property
- Note 10, General Property, Plant and Equipment

### Note 3. Fund Balance with Treasury

| As of September 30,    | 2002              | 2001              |
|------------------------|-------------------|-------------------|
| (Amounts in thousands) |                   |                   |
| <b>Fund Balances:</b>  |                   |                   |
| Revolving Funds        | <u>\$ 463,312</u> | <u>\$ 556,603</u> |

| As of September 30,                              | 2002                | 2001              |
|--|---------------------|-------------------|
| <b>Fund Balances Per Treasury Versus Agency:</b> |                     |                   |
| Fund Balance per Treasury                        | <u>\$ 1,323,257</u> | <u>\$ 918,537</u> |
| Fund Balance per AFWCF                           | <u>463,312</u>      | <u>556,603</u>    |
| Reconciling Amount                               | <u>\$ 859,945</u>   | <u>\$ 361,934</u> |

#### Explanation of Reconciliation Amount

The reconciling amount on line 2C above represents \$859,945,442.45 for United States Transportation Command (USTC) which is reported by Treasury as part of Air Force Working Capital Fund and reported as Other Defense Organizations for AFS. See footnote 1C(2) in the USTC footnotes for further information concerning this matter.

#### Other Information Related to Fund Balance with Treasury

##### Fluctuations

Various issues caused the variance from FY02 and FY01 for line 1.E. An issue that led to a decrease in Total Fund Balance is that in FY01 advanced billings were issued for DMAG. The AFWCF is required to maintain an operating cash balance of at least \$200 million. Prior to September 2001, the overall FBWT was approaching a critically low level indicating a need for the advanced billings. In FY02 these advance billings were not necessary. Three issues led to increases in Total Fund Balance. The issues are an improvement to the billing process system, increase in rates to recoup prior year losses, and treasury warrants issued to the AFWCFs.

##### Note Reference

See Note Disclosure 1.I, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Funds with the U.S Treasury.

### Note 4. Investments

Not applicable.

## Note 5. Accounts Receivable

| As of September 30,                               | 2002              |  |                          | 2001                     |
|---|-------------------|--|--------------------------|--------------------------|
|   | Gross Amount Due  | Allowance For Estimated Uncollectibles | Accounts Receivable, Net | Accounts Receivable, Net |
| (Amounts in thousands)                            |                   |  |                          |                          |
| <b>Intra-governmental Receivables:</b>            | \$ 628,025        | N/A                                    | \$ 628,025               | \$ 461,229               |
| <b>Non-Federal Receivables (From the Public):</b> | \$ 15,925         | \$ (78)                                | \$ 15,847                | \$ 105,290               |
| <b>Total Accounts Receivable:</b>                 | <u>\$ 643,950</u> | <u>\$ (78)</u>                         | <u>\$ 643,872</u>        | <u>\$ 566,519</u>        |

### Other information

#### Fluctuations

The increase of \$77.3 million for total Accounts Receivable from FY 01 to FY 02 is due to:

Intragovernmental Accounts Receivable increased by \$166.8 million. DMAG discovered \$118 million was erroneously recorded as Public in September FY01, but corrected in October FY02. The remaining \$48.8 million of the increase is attributed to an increase in Sales in September FY02 that were collected in October FY03.

Public Accounts Receivable decreased by (\$89.5) million. FY01 included the DMAG \$118 million that was incorrectly recorded as Public but should have been Intragovernmental. FY01 includes the normal adjustment for undistributed collections, but during FY02 \$82 million of the unsupported undistributed amount was resolved.

#### Abnormalities

Non-Federal Receivables had an abnormal balance of \$20 million, which was attributed to the \$35 million abnormal balance in Component Adjustment from unsupported Undistributed Collections. The Accounts Receivable balance of all the AFWCF entities combined was less than the Component Undistributed abnormal amount, and therefore created an abnormal balance for the total Non-Federal Accounts Receivable. The \$35 million was reclassified to Other Liabilities.

Two SMAG entities, Fuels and Medical/Dental, had abnormal Accounts Receivable balances on their trial balances, either before or after distribution of the Undistributed Collections. Accruals were done to bring these abnormal balances up to zero, as illustrated below. Accounts Receivable amounts include Accounts Receivable, Claims Receivable, and Refunds Receivable. (In the following presentation of values, parenthesis indicate credit balances. The last column indicates the amount of Accrued Accounts Receivable offsetting the abnormal balances.)

The Fuels abnormal balance is caused by the Undistributed allocation to Federal Accounts Receivable. There was not enough in Accounts Receivable before the distribution to offset the abnormal undistributed.

The Medical/Dental abnormal balance was caused by an abnormal balance in Non-Federal Refunds Receivable. The amount of the abnormal balance was erroneous reported and will be corrected in FY03.

| <b>Distribution of Undistributed Collections for Entities with Abnormal Balances (in Thousands)</b> |   |   |  |  |
|---|---|---|--|--|
|   | <b>Beginning<br/>Abnormal<br/>Undistributed</b> | <b>Accounts Receivables<br/>Before Distribution</b> | <b>A/R after<br/>Allocation of<br/>Undistributed</b> | <b>Accrued A/R to<br/>Offset Abnormal<br/>Balances</b> |
| <b>Federal</b>  |   |   |  |  |
| SMAG—Fuels  | (5,459)   | 911   | (4,548)  | 4,548  |
| SMAG—Medical/Dental   | 0   | 22,043  | 22,043   | 0  |
| <b>Federal subtotal:</b>  | <b>(5,459)</b>                                  | <b>22,954</b>                                       | <b>17,495</b>  | <b>4,548</b>   |
| <b>Non-Federal</b>  |   |   |  |  |
| SMAG—Fuels  | (5,915)   | 11,481  | 6  | 0  |
| SMAG—Medical/Dental   | 0   | (131)   | (131)  | 131  |
| <b>Non-Federal subtotal:</b>  | <b>(5,915)</b>                                  | <b>11,350</b>                                       | <b>5,435</b>   | <b>131</b>   |
| <b>Total</b>  | <b>(11,374)</b>                                 | <b>34,304</b>                                       | <b>22,930</b>  | <b>4,679</b>   |

## Other Information Related to Accounts Receivables

### Allocation of Undistributed Collections

The total undistributed collections applied to Accounts Receivable for the AFWCF was (\$280) million, and is broken out by business area in the table below. Undistributed was allocated based solely on the percentage of government/public for the total amount of receivables. See supplementary information in Note 24A for additional discussion of undistributed.

| <b>Schedule of Undistributed Collections Applied to Accounts Receivable (in Thousands)</b> |           |        |         |          |           |           |
|--|-----------|--------|---------|----------|-----------|-----------|
|  | DMAG      | ISAG   | SMAG    | AF TRANS | Component | Total     |
| <b>A/R prior to Undistributed</b>  | 620,094   | 43,284 | 225,659 | 0        | 0         | 889,037   |
| <b>Amount of Undistributed</b>   | (237,201) | 713    | (9,294) | 617      | (35,426)  | (280,591) |
| <b>A/R After Undistributed</b>   | 382,893   | 43,997 | 216,365 | 617      | (35,426)  | 608,446   |

### Elimination Adjustments

The Air Force accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Air Force was unable to reconcile Intra-governmental Accounts Receivable balances with its trading partners. The DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of Intra-governmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

## Accounts Receivables—Aging Schedule

| Aged Schedule of Accounts Receivable (in Thousands) |                |               |                |            |                 |                 |
|---|----------------|---------------|----------------|------------|-----------------|-----------------|
|   | DMAG           | ISAG          | SMAG           | AF TRANS   | Component       | Total           |
| Federal A/R less than 180 days                      | 593,263        | 57,259        | 371,856        | 0          | 0               | 965,119         |
| Federal A/R over 180 days                           | 691            | 0             | 15,465         | 0          | 0               | 73,415          |
| Less: Eliminations                                  | (224,225)      | (13,264)      | (173,020)      | 0          | 0               | (410,509)       |
| <b>Total Federal A/R</b>                            | <b>369,729</b> | <b>43,995</b> | <b>214,301</b> | <b>0</b>   | <b>0</b>        | <b>628,025</b>  |
| Non-Federal A/R less than 180 days                  | 12,777         | 2             | (11,267)       | 0          | 0               | 1,512           |
| Non-Federal A/R over 180 days                       | 387            | 0             | 13,331         | 617        | (35,426)        | (21,091)        |
| <b>Total Non-Federal A/R</b>                        | <b>13,164</b>  | <b>2</b>      | <b>2,064</b>   | <b>617</b> | <b>(35,426)</b> | <b>(19,579)</b> |
| <b>Total A/R</b>                                    | <b>382,893</b> | <b>43,997</b> | <b>216,365</b> | <b>617</b> | <b>(35,426)</b> | <b>608,446</b>  |

## Non-Federal Refunds Receivable

The Non-Federal Refunds Receivable is not greater than 10 percent of the Non-Federal Accounts Receivable net amount on the Balance Sheet.

## Note Reference

See Note Disclosure 1.K, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Accounts Receivable.

## Note 6. Other Assets

| As of September 30,                          | 2002              | 2001              |
|--|-------------------|-------------------|
| (Amounts in thousands)                       |                   |                   |
| <b>Intra-governmental Other Assets:</b>      |                   |                   |
| Advances and Prepayments                     | \$ 0              | \$ 56,322         |
| Other Assets                                 | 0                 | 998               |
| <b>Total Intra-governmental Other Assets</b> | <b>\$ 0</b>       | <b>\$ 57,320</b>  |
| <b>Non-Federal Other Assets:</b>             |                   |                   |
| Other Assets (With the Public)               | 530,335           | 468,474           |
| <b>Total Other Assets:</b>                   | <b>\$ 530,335</b> | <b>\$ 525,794</b> |

## Other Information Related to Other Assets

## Fluctuations

**Intra-governmental Assets.** In FY01, the Materiel Support Division buyer-side advances to others were adjusted upward \$56 million to agree with seller-side advances from others on the books of other DoD reporting entities. In FY02, Materiel Support Division buyer-side advances were adjusted upward by \$2.6 million, however, eliminations for AFWCF were in the amount of \$2.6 million. This results in zero for intra-governmental advances and prepayments.

**Non-Federal Other Assets.** The fluctuations to Non-federal Other Assets is caused by the account "Other assets accounts receivable – deliveries suspense." An adjustment of \$55 million was made to SMAG other assets accounts receivable – deliveries expense shown above to correct the misstatement in FY02. It has been overstated by values from 1993 and prior years. Air Force and DFAS are aware of a material misstatement of this balance that resulted from sys-

tem problems between Financial Inventory Accounting and Billing System (FIABS ) and Security Assist Management Information System (SAMIS). AFMC and DFAS are currently working to resolve this problem. An adjustment of \$376M was made to SMAG other assets accounts receivable – deliveries expense to correct the misstatement in FY01.

#### *Intra-governmental Assets*

The buyer-side advances to other balances were adjusted with seller-side advances from others on the books or other DoD reporting entities.

#### *Non-Federal Other Assets*

| <b>Non-Federal Other Assets (in Thousands)</b>                 |                  |
|--|------------------|
| <b>Types of Asset</b>  | <b>Amounts</b>   |
| <b>Advances and Prepayments</b>                                |                  |
| SMAG   | \$122,516        |
| DMAG   | \$53,099         |
| <b>Total Advances and Prepayments</b>                          | <b>\$175,615</b> |
| <b>Other Assets</b>  |                  |
| SMAG—Other assets accounts receivable—deliveries suspense      | \$98,524         |
| SMAG—Air Force assets—other DoD foreign military sales (depot) | (\$134)          |
| SMAG—Other assets returns to vendors pending credit            | \$256,330        |
| <b>Total Other Assets</b>                                      | <b>\$354,720</b> |
| <b>Total Non-Federal Other Assets</b>                          | <b>\$530,335</b> |

#### *Advances and Prepayments*

Total advances and prepayments to contractors are \$175 million. SMAG has \$122 million in advances with the public. DMAG has \$53 million in advances to contractors.

#### *Other Assets*

The remaining other assets in the amount of \$355 million belongs to the SMAG business area. The majority of other assets are reported by four Air Logistics Centers as sales of Materiel Support Division (MSD) assets to foreign governments. These deliveries cannot be billed until each delivery is matched to a proof of shipment within the Security Assistance Management Information System (SAMIS).

#### *Note Reference*

See Note Disclosure 1.R, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Other Assets.

## Note 7. Cash and Other Monetary Assets

| As of September 30,    | 2002 | 2001 |
|------------------------|------|------|
| (Amounts in thousands) |      |      |
| <b>Cash</b>            | \$ 4 | \$ 0 |

### Other Information Pertaining to Entity Cash and Other Monetary Assets

#### Definitions

**Cash**—The total of cash resources under the control of the Working Capital Fund, which included coin, paper currency, purchased foreign currency, negotiable instruments, and amounts on deposit in banks and other financial institutions. Cash available for agency use should include petty cash funds and cash held in revolving funds which will not be transferred into the U.S Government General Fund.

**Foreign Currency**—consists the total U.S dollar equivalent of non-purchased foreign currencies held in foreign currency fund accounts. Non-purchased foreign currency is limited to the Treasury Index 97X7000 fund account (formerly called FT accounts).

**Other Monetary Assets**—included gold, special drawing rights, and U.S Reserve in the International Monetary Fund. This category is principally for use by the Department of the Treasury.

#### Fluctuations

The increase of \$4 thousand was caused by undeposited collections for ISAG.

#### Note Reference

See Note Disclosure 1.J, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Foreign Currency.

## Note 8. Direct Loan and/or Loan Guarantee Programs

Not applicable.

## Note 9. Inventory and Related Property

| As of September 30,                            | 2002                 | 2001                 |
|--|----------------------|----------------------|
| (Amounts in thousands)                         |                      |                      |
| <b>Inventory, Net</b>                          | <b>\$ 12,846,841</b> | <b>\$ 10,080,075</b> |
| <b>Operating Materials &amp; Supplies, Net</b> | <b>1,145,118</b>     | <b>976,309</b>       |
| <b>Total</b>                                   | <b>\$ 13,991,959</b> | <b>\$ 11,056,384</b> |

### Note 9.A. Inventory, Net

| As of September 30,                 | 2002                   |                        |                   | 2001                 |                  |
|-------------------------------------|------------------------|------------------------|-------------------|----------------------|------------------|
|                                     | Inventory, Gross Value | Revaluation Allowance  | Inventory, Net    | Inventory, Net       | Valuation Method |
| <b>Inventory Categories:</b>        |                        |                        |                   |                      |                  |
| Available and Purchased for Resale  | \$ 24,036,173          | \$ (15,581,004)        | 8,455,169         | \$ 5,638,689         | LAC/O            |
| Held for Repair                     | 11,581,314             | (8,476,492)            | 3,104,822         | 3,254,547            | LAC/O            |
| Excess, Obsolete, and Unserviceable | 0                      | 0                      | 0                 | 84,112               | NRV              |
| Work in Process                     | 1,286,850              | 0                      | 1,286,850         | 1,102,727            | AC               |
| <b>Total</b>                        | <b>\$ 36,904,337</b>   | <b>\$ (24,057,496)</b> | <b>12,846,841</b> | <b>\$ 10,080,075</b> |                  |

#### Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses      NRV = Net Realizable Value

SP = Standard Price      O = Other

AC = Actual Cost

### Restrictions of Inventory Use, Sale, or Disposition

There are no restrictions on the use, sale, or disposition of inventory except in the following situations: distributions without reimbursement are made when authorized by DoD directives; War Reserve Material includes fuels and subsistence items that are considered restricted; and Inventory, with the exception of safety stocks, may be sold to foreign, state and local governments, private parties, and contractors in accordance with current policies and guidance or at the direction of the President.

### Other Information

#### General Composition of Inventory

Inventory includes spare and repair parts, clothing and textiles, fuels, and ammunition. Inventory is tangible personal property that is:

- Held for sale, or held for repair for eventual sale
- In the process of production for sale; or
- To be consumed in the production of goods for sale or in the provision of services for a fee.

"Inventory held for repair" is damaged material that requires repair to make it usable. "Excess inventory" is condemned material that must be retained for management purposes. The category "held for sale" includes all issuable material. The category "held for repair" includes all economically reparable material. "Work in process" includes munitions in

production and depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services. The USSGL does not include a separate work in process account unrelated to sales.

#### *Fluctuations*

In accordance with a memo from OSD dated August 12, 2002, a policy change was implemented which discontinued the adjustment for inventory valuation for the amount of excess, obsolete and unserviceable inventory. As a result of this policy change, \$1.6 billion of excess inventory which was recognized as expenses in prior years was reversed as a prior period adjustment. The inventory allowance account was decreased by this amount, which increased the overall value of inventory. Also, the inventory worksheet was adjusted to indicate the deletion of the excess expense, which increased the inventory amount and decreased cost of goods sold expense.

The amount recorded in the Work in Process (WIP) account represents labor, applied overhead, and supplies used in the delivery of maintenance services. DMAG has approximately \$1.3 million recorded in WIP in note 9.A., which is an increase of \$184 million over FY 01. This increase is attributed to the Oklahoma City ALC, Contract where sales have decreased and the job orders are remaining in WIP over a longer period of time than in previous years.

#### *Note Reference*

See Note Disclosure 1.M, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Inventory and related Property.

## **Note 9.B. Operating Materials and Supplies, Net**

| As of September 30,<br>(Amounts in thousands)                                 | 2002           |                          | 2001                       |              | Valuation<br>Method |
|---|----------------|--------------------------|----------------------------|--------------|---------------------|
|   | OM&S,<br>Gross | Revaluation<br>Allowance | OM&S,<br>Net               | OM&S,<br>Net |                     |
| <b>OM&amp;S Categories:</b>   |                |                          |                            |              |                     |
| Held for Use  | \$ 1,145,118   | \$ 0                     | \$ 1,145,118               | \$ 976,309   | O                   |
| <b>Legend for Valuation Methods:</b>  |                |                          |                            |              |                     |
| Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses |                |                          | NRV = Net Realizable Value |              |                     |
| SP = Standard Price   |                |                          | O = Other                  |              |                     |
| AC = Actual Cost  |                |                          |                            |              |                     |

#### *Other Information*

##### *General Composition of Operating Materials and Supplies*

Operating materials and supplies includes spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines. The Operating Materials & Supplies (OM&S) data reported on the financial statements are derived from logistics systems designed for material management purposes, i.e., accountability and visibility. The reported balances from these systems are not recorded at historical cost, in conformance with the valuation requirements in the Statement of Federal Financial Accounting Standard (SFFAS) No. 3, "Accounting for Inventory and Related Property." Instead the Air Force uses standard price to value its operating materials and supplies without computing unrealized holding gains or losses. Furthermore, past audit results have led to uncertainties pertaining to the completeness and existence of the OM&S quantities used to derive the balances reported in the financial statements.

For the most part, DMAG is using the consumption method of accounting for OM&S, since OM&S is defined in the SFFAS No. 3 as material which has not yet been issued to the end user. Once issued, the material is expensed. As stated above, current financial and logistics systems cannot fully support the consumption method. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless: (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost-beneficial to expense OM&S when purchased (purchase method). The DoD, in consultation with its auditors, is: (1) developing specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method, (2) developing functional requirements for feeder systems to support the consumption method, and (3) identifying feeder systems that are used to manage OM&S items, and (4) developing plans to revise those systems to support the consumption method. However, for FY 01, significant portions of the Air Force's OM&S were reported under the purchase method – expensed when purchased – either because the systems could not support the consumption method of accounting or because management believes the items to be in the hands of the end user.

#### *Fluctuations*

The variance of \$168 million is due to DMAG. Oklahoma City Contract materials on hand have not been scheduled for use as quickly as in prior years and Materials have remained in "Held for Use" longer. Another issue that contributed to the increase was a systems problem in G072D that effected all of the Air Logistic Centers in FY 00 and FY 01 where the "Operating Materials and Supplies Intransit" were understated. Most of the corrections were accomplished in FY 02 to catch up the amount in that account.

#### *Note Reference*

See Note Disclosure 1.M, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Inventory and related Property.

## Note 10. General PP&E, Net

| As of September 30,<br>(Amounts in thousands) | 2002                                    |              |                      |  |                     | 2001                       |
|---|---|--------------|----------------------|--|---------------------|----------------------------|
|   | Depreciation/<br>Amortization<br>Method | Service Life | Acquisition<br>Value | (Accumulated<br>Depreciation/<br>Amortization) | Net Book<br>Value   | Prior FY Net<br>Book Value |
| <b>Major Asset Classes:</b>                   |   |              |                      |  |                     |                            |
| Buildings, Structures, and Facilities         | 30                                      | 20 or 40     | 797,482              | \$ (537,925)                                   | 259,557             | 288,983                    |
| Leasehold Improvements                        | S/L                                     | lease term   | 0                    | 0  | 0                   | 0                          |
| Software                                      | S/L                                     | 2-5 or 10    | 427,995              | (128,143)                                      | 299,852             | 225,315                    |
| Equipment                                     | S/L                                     | 5 or 10      | 2,135,379            | (1,594,636)                                    | 540,743             | 567,684                    |
| Construction-in-Progress                      | N/A                                     | N/A          | 220,657              | N/A  | 220,657             | 176,065                    |
| Total General PP&E                            |   |              | <u>\$ 3,581,513</u>  | <u>\$ (2,260,704)</u>                          | <u>\$ 1,320,809</u> | <u>\$ 1,258,047</u>        |

#### Legend for Valuation Methods:

S/L = Straight Line      N/A = Not Applicable

## Other Information

### *Fluctuations*

**Buildings, Structures, and Facilities.** The decrease to Buildings, Structures and Facilities can be primarily attributed to Air Force Transportation (a residual account) transferring property out to O&M in FY02. Oklahoma City (Tinker) Organic added two buildings & a minor construction project (on an existing structure) offsetting a portion of the decrease caused by the transfer in Air Force Transportation.

**Software.** The increase to software can be attributed to DMAG implementation costs incurred at Ogden, Tinker, and Warner Robins Air Logistics Center's (ALC's) for the Defense Industrial Financial Management System (DIFMS). ISAG also incurred implementation costs for various systems at SSG and MSG.

### *Construction-in-Progress*

The primary reason for the increase to construction in process was due to an increase of \$42.9 million in construction in process for Supply Management Material Support Division. The account is overstated by \$48.2M due to the improper recording of the software being placed into service. Proper recording of the transfer would have resulted in a net \$5.3M decrease in the construction-in-progress account. AFMC is currently reviewing all of the capital purchase program accounts and working on a process to correct this issue.

### *Other Information Related to General PP&E, Net*

In Fiscal Year 2002, real property reported by the Automated Civil Engineering System (ACES), personal property reported by the Air Force Equipment Management System (AFEMS), and the Information Processing Management System (IPMS), data has not been validated and reconciled to reported figures received from the field activities by DFAS; however, the Depot Maintenance ALCs and Aerospace Maintenance and Regeneration Center (AMARC) use the Automated Civil Engineer System (ACES) to capture the costs of real property based on preponderance of use for each building. They use the straight-line method for recording depreciation maintained on spreadsheets vice the ACES schedule. The accounting entries are recorded directly into the field level trial balances. With the full implementation of the Defense Industrial Fund Management System (DIFMS), ACES will be the source for all real property accounting entries.

Any WCF Special Tools and Special Test equipment in the possession and control of the Air Force are reported in the Air Force General Funds financial statements.

The value of Air Force General PP&E real property in the possession of contractors is included in the value reported above for the Major Asset Classes of Land and Buildings, Structures, and Facilities. The value of General PP&E personal property (Major Asset Classes of Software and Equipment) does not include all of the General PP&E above the DoD capitalization threshold in the possession of contractors. The net book amount of such property is immaterial in relation to the total General PP&E net book value. In accordance with an approved strategy with the Office of Management and Budget, the General Accounting Office and the Inspector General, DoD, is developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes for compliance with federal-wide accounting standards.

Past audit results have identified uncertainties as to whether all General PP&E assets in the possession or control (existence) of the Department's are properly and accurately recorded in the system (completeness).

**Note Reference**

See Note Disclosure 1.N, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing General Property, Plant and Equipment (PP&E).

## **Note 11. Liabilities Not Covered and Covered by Budgetary Resources**

| As of September 30,<br>(Amounts in thousands)                                   | 2002                                 |  |                     | 2001                |  |
|---|--------------------------------------|--|---------------------|---------------------|--|
|   | Covered by<br>Budgetary<br>Resources | Not Covered<br>by Budgetary<br>Resources | Total               |                     |  |
| <b>Intra-governmental Liabilities:</b>  |                                      |  |                     |                     |  |
| Accounts Payable  | \$ 154,696                           | \$ 0                                     | \$ 154,696          | \$ 143,833          |  |
| Other   | 11,384                               | 0  | 11,384              | 353,537             |  |
| <b>Total Intra-governmental Liabilities</b>                                     | <b>\$ 166,080</b>                    | <b>\$ 0</b>                              | <b>\$ 166,080</b>   | <b>\$ 497,370</b>   |  |
| <b>Non-Federal Liabilities:</b>   |                                      |  |                     |                     |  |
| Accounts Payable  | \$ 1,791,467                         | \$ 0                                     | \$ 1,791,467        | \$ 1,328,019        |  |
| Military Retirement Benefits and Other Employment-Related Actuarial Liabilities | 0                                    | 247,750                                  | 247,750             | 242,137             |  |
| Other Liabilities   | 3,151,129                            | 0  | 3,151,129           | 3,111,789           |  |
| <b>Total Non-Federal Liabilities</b>  | <b>\$ 4,942,596</b>                  | <b>\$ 247,750</b>                        | <b>\$ 5,190,346</b> | <b>\$ 4,681,945</b> |  |
| <b>Total Liabilities:</b>   | <b>\$ 5,108,676</b>                  | <b>\$ 247,750</b>                        | <b>\$ 5,356,426</b> | <b>\$ 5,179,315</b> |  |

### **Other Information**

#### *Liabilities Not Covered and Covered by Budgetary Resources*

Liabilities Not Covered by Budgetary Resources are those liabilities which are not considered covered by realized budgetary resources as of the balance sheet date.

Liabilities Covered by Budgetary Resources are those that are incurred by the reporting entity which are covered by realized budget resources as of the balance sheet date. Budgetary resources encompass not only new budget authority but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include: (1) new budget authority, (2) spending authority from offsetting collections (credited to an appropriation or fund account), (3) recoveries of unexpired budget authority through downward adjustments of prior year obligations, (4) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and (5) permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the OMB without further action by the Congress or without a contingency first having to be met.

## Other Information Related to Liabilities Not Covered by Budgetary Resources

### *Line 2(B): Military Retirement Benefits and Other Employment-Related Actuarial Liabilities.*

The \$247 million in Military Retirement Benefits and Other Employment-Related Actuarial Liabilities represents AFWCF FY 02 Workman's Compensation.

Amounts are broken out by business area as follows (in thousands):

|      |            |
|------|------------|
| SMAG | \$ 22,424  |
| DMAG | \$ 214,329 |
| ISAG | \$ 10,997  |

#### *Fluctuations*

**Total Intra-governmental Other Liabilities.** The \$342 million decrease from FY 01 to FY 02 was caused by DMAG. In FY 01 Fund Balance with Treasury and Unearned Revenue/Advances from Others increased by \$342 from the prior year. In FY 01 the overall AFWCF cash balance was approaching a critically low level, and the AFWCF is required to maintain an operating cash balance of at least \$200 million. Secretary Air Force (SAF) and HQ AFMC requested DMAG to advance bill their customers to bring in the cash required in the amount of \$500 million. The full effect of the advance billings was not realized because in FY 01 the AFWCF exceeded planned net operating losses in the amount of \$137 million. DMAG did not issue advance billings in FY 02 at the end of the year, so the DMAG Unearned Revenue/Advances from Others returned to its normal level.

#### *Note Reference*

For Additional Line Item discussion, see:

- ▶ Note 8, Direct Loans and/or Loan Guarantee Programs
- ▶ Note 12, Accounts Payable
- ▶ Note 13, Liabilities Not Covered and Covered by Budgetary Resources
- ▶ Note 14, Environmental Restoration Liabilities, and Environmental Disposal Liabilities
- ▶ Note 15, Other Liabilities
- ▶ Note 16, Commitments and Contingencies
- ▶ Note 17, Military Retirement Benefits and Other Employment Related Actuarial Liabilities

## Note 12. Accounts Payable

| As of September 30,<br>(Amounts in thousands) | 2002                |   |                     | 2001                |
|---|---------------------|---|---------------------|---------------------|
|   | Accounts<br>Payable | Interest,<br>Penalties, and<br>Administrative<br>Fees | Total               | Total               |
| <b>Intra-governmental Payables:</b>           | \$ 154,696          | N/A   | \$ 154,696          | \$ 143,833          |
| <b>Non-Federal Payables (to the Public):</b>  | \$ 1,791,467        | \$ 0  | \$ 1,791,467        | \$ 1,328,019        |
| <b>Total</b>                                  | <b>\$ 1,946,163</b> | <b>\$ 0</b>   | <b>\$ 1,946,163</b> | <b>\$ 1,471,852</b> |

### Other Information

Intra-governmental Accounts Payable consists of amounts owed to other federal agencies for goods or services ordered and received but not yet paid. Interest, penalties and administrative fees are not applicable to intragovernmental payables. Non-Federal Payables (to the Public) are payments to nonfederal entities.

#### Fluctuations

\$354 million of the total Account Payable increase from FY 01 to FY 02 is attributed to SMAG's accrual of Non-Federal Accounts Payable as the contra account to federal Expenses. When the AFWCF buyer business entity's federal Expenses were compared to the seller's federal Revenue and a positive difference resulted, the positive difference was treated as unrecognized federal Expenses and an upward adjustment was required. Non-Federal Accounts Payable was used as the contra account because federal Accounts Payable had already been eliminated to the seller's Accounts Receivable. An upward adjustment was also required to the Non-Federal Accounts Payable.

Total ISAG Accounts Payable increased from FY 01 to FY 02 by \$120 million due to an incorrect general ledger account crosswalk to the trial balance in FY 01. In FY 01 most of the Accounts Payable general ledger accounts were crosswalked to the Other Liabilities account on the trial balance. The crosswalk was corrected in FY 02.

#### Abnormalities

Three DMAG and two SMAG entities had abnormal Accounts Payable balances on their trial balances either before or after distribution of the Undistributed Disbursements.

Warner Robins Contract abnormal balance in the amount of \$4,406,622.12 resulted when a shipment of government furnished materials from Supply to the contractor was not processed in the DMAG system correctly and Accounts Payable was not posted. The reversal to Accounts Payable was posted when the payment to Supply was processed, and therefore, the abnormal balance resulted. The distribution of undistributed disbursements in the amount of \$19,062,328.55 increased the abnormal balance.

Davis Monthan's contract abnormal balance in the amount of \$402,839.57 resulted from credit Expenses, Accounts Payable as the debit account, received from the Supply system. Davis Monthan is currently awaiting the corrective postings from the Supply system.

Oklahoma City Contract abnormal balance resulted from the distribution of Undistributed Disbursements.

Fuels abnormal balance resulted from the distribution of Undistributed Disbursements.

General Support abnormal balance resulted from the reversal of a journal voucher created in FY 01 to accrue enough Accounts Payable to match to trading partner's Accounts Receivable in the amount of \$576,603,791.42. The distribution of Undistributed Disbursements increased the abnormal balance to \$587,979,690.63.

Accruals were done to bring these abnormal balances up to zero, as illustrated below. (In the following presentation of values, parenthesis indicate credit balances. The last column indicates the amount of Accrued Accounts Payable offsetting the abnormal balances.)

#### Distribution of Undistributed Disbursements for Entities with Abnormal Balances

|                              |          |          | Undistributed  | Accounts<br>Payable Before<br>Distribution | A/P after<br>Allocation of<br>Undistributed | Accrued A/P to<br>Offset Abnormal<br>Balances |
|------------------------------|----------|----------|----------------|--|---|---|
| <b>Federal</b>               |          |          |                |  |   |   |
| DMAG                         | Warner   | Contract | 19,062         | 4,407                                      | 23,469                                      | (23,469)                                      |
| DMAG                         | Davis    | Monthan  | 0              | 403  | 403   | (403)   |
| DMAG                         | Oklahoma | Contract | 24,054         | (24,054)                                   | 0   | 0   |
| SMAG                         | Fuels    |          | 2,721          | (628)                                      | 2,093                                       | (2,093)                                       |
| SMAG                         | General  | Support  | 151,137        | (263,529)                                  | (112,392)                                   | 0   |
| <b>Federal subtotal:</b>     |          |          | <b>196,974</b> | <b>(283,401)</b>                           | <b>(86,427)</b>                             | <b>(25,965)</b>                               |
| <b>Non-Federal</b>           |          |          |                |  |   |   |
| DMAG                         | Warner   | Contract | 118            | (118)                                      | 0   | 0   |
| DMAG                         | Davis    | Monthan  | 1,324          | (562)                                      | 762   | (762)   |
| DMAG                         | Oklahoma | Contract | 18,955         | (6,128)                                    | 12,827                                      | (12,827)                                      |
| SMAG                         | Fuels    |          | 22,011         | (5,168)                                    | 16,843                                      | (16,843)                                      |
| SMAG                         | General  | Support  | 11,376         | 576,604                                    | 587,980                                     | (587,980)                                     |
| <b>Non-Federal subtotal:</b> |          |          | <b>53,784</b>  | <b>564,628</b>                             | <b>618,412</b>                              | <b>(618,412)</b>                              |
| <b>Total</b>                 |          |          | <b>250,758</b> | <b>281,227</b>                             | <b>531,985</b>                              | <b>(644,377)</b>                              |

#### Other Information Related to Accounts Payable

##### Relevant Information for Comprehension

**Undistributed Disbursements.** Undistributed disbursements are the difference between disbursements/collections recorded at the detailed level to a specific obligation, payable, or receivable in the activity field records versus those reported by the U.S. Treasury via the reconciled DD1329 and DD1400. This should agree with the undistributed reported on accounting reports (SF 133/(M) 1002/(M) 1307). Intransit payments are payments that have been made for other agencies or entities that have not been recorded in their accounting records. These payments are applied to the entities outstanding Accounts Payable balance at year-end. AFWCF Accounts Payable were adjusted downward in the amount of \$1,367,358,931.74 for these payments.

**Intra-governmental Eliminations.** For the majority of intra-agency sales Air Force Working Capital Funds (AFWCF) accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the AFWCF was unable to reconcile intra-governmental Accounts Payable to the related intra-governmental Accounts Receivable that generated the payable.

The DoD summary level seller Federal Accounts Receivables were compared to each buyer AFWCF business entity's Federal Accounts Payable. Adjustments were posted to each AFWCF business entity Federal Accounts Payable based on

the comparison with the Federal Accounts Receivable of the DoD Components providing goods and services to each AFWCF business entity. Positive differences were treated as unrecognized Accounts Payable and Federal Accounts Payable were adjusted upwards. Negative differences were treated as Non-Federal Accounts Payable and Federal Accounts Payable were adjusted downward by reclassifying to Non-Federal Accounts Payable.

When the AFWCF buyer business entity's federal Expenses were compared to the seller's federal Revenue and a positive difference resulted, the positive difference was treated as unrecognized federal Expenses and an upward adjustment was required. Non-Federal Accounts Payable was used as the contra account. This also required an upward adjustment to the Non-Federal Accounts Payable for AFWCF.

The DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intra-governmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

(In the following presentation of values, parenthesis indicate credit balances. The last column indicates the amount of Accrued Accounts Payable after AFWCF intra-entity eliminations.)

| <b>A/P Elimination Accruals after Undistributed Disbursement Distribution and Abnormal Balance Accruals (in Thousands)</b> |                         |  |   |                                      |                             |
|--|-------------------------|--|---|--------------------------------------|-----------------------------|
|  | <b>Adjusted<br/>A/P</b> | <b>Elimination<br/>Accruals<br/>and/or<br/>Adjustments</b> | <b>A/P after<br/>Elimination<br/>Accruals</b> | <b>AFWCF Intra-<br/>Eliminations</b> | <b>Consolidated<br/>A/P</b> |
| <b>Federal</b>   |                         |  |   |                                      |                             |
| DMAG   | (84,447)                | (117,534)  | (201,981)                                     | 176,887                              | (25,094)                    |
| ISAG   | (253,523)               | 24,733   | (620)   | 7                                    | (613)                       |
| SMAG   | (897,723)               | 535,119  | (362,604)                                     | 233,616                              | (128,988)                   |
| <b>Federal Total</b>   | <b>(1,007,523)</b>      | <b>442,318</b>   | <b>(565,205)</b>                              | <b>410,510</b>                       | <b>(154,695)</b>            |
| <b>Non-Federal</b>   |                         |  |   |                                      |                             |
| DMAG   | (3,733)                 | (11,818)   | (15,551)                                      | 0                                    | (15,551)                    |
| ISAG   | (112,265)               | (24,556)   | (136,821)                                     | 0                                    | (136,821)                   |
| SMAG   | (153,989)               | (1,605,502)  | (1,759,491)                                   | 0                                    | (1,759,491)                 |
| Component  | 122,368                 | 0  | 122,368                                       | 0                                    | 122,368                     |
| AFTRANS  | (1,973)                 | 0  | (1,973)                                       | 0                                    | (1,973)                     |
| <b>Non-Federal Total</b>   | <b>(149,592)</b>        | <b>(1,641,876)</b>   | <b>(1,791,468)</b>                            | <b>0</b>                             | <b>(1,791,468)</b>          |
| <b>Total</b>   | <b>(1,157,115)</b>      | <b>(1,199,558)</b>   | <b>(2,356,673)</b>                            | <b>410,510</b>                       | <b>(1,946,163)</b>          |

#### Note Reference

See Note Disclosure 1.G, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing accounting for Intragovernmental Activities.

### Note 13. Debt

Not applicable.

## Note 14. Environmental Liabilities and Disposal Liabilities

Not applicable.

## Note 15.A. Other Liabilities

| As of September 30,<br>(Amounts in thousands)     | 2002                 |                         |                  | 2001       |                   |
|---|----------------------|-------------------------|------------------|------------|-------------------|
|   | Current<br>Liability | Noncurrent<br>Liability | Total            |            | Total             |
| <b>Intra-governmental:</b>                        |                      |                         |                  |            |                   |
| Advances from Others                              | \$ 1,755             | \$ 0                    | \$ 1,755         | \$ 347,383 |                   |
| Other Liabilities                                 | 9,629                | 0                       | 9,629            |            | 6,154             |
| <b>Total Intra-governmental Other Liabilities</b> | <b>\$ 11,384</b>     | <b>\$ 0</b>             | <b>\$ 11,384</b> |            | <b>\$ 353,537</b> |

| As of September 30,<br>(Amount in Thousands) | 2002                 |                         |                     | 2001       |                     |
|--|----------------------|-------------------------|---------------------|------------|---------------------|
|  | Current<br>Liability | Noncurrent<br>Liability | Total               |            | Total               |
| <b>Non-Federal:</b>                          |                      |                         |                     |            |                     |
| Accrued Funded Payroll and Benefits          | \$ 147,661           | \$ 0                    | \$ 147,661          | \$ 150,329 |                     |
| Advances from Others                         | 1,070                | 0                       | 1,070               |            | 1,212               |
| Other Liabilities                            | 3,002,398            | 0                       | 3,002,398           |            | 2,960,248           |
| <b>Total Non-Federal Other Liabilities</b>   | <b>\$ 3,151,129</b>  | <b>\$ 0</b>             | <b>\$ 3,151,129</b> |            | <b>\$ 3,111,789</b> |
| <b>Total Other Liabilities:</b>              | <b>\$ 3,162,513</b>  | <b>\$ 0</b>             | <b>\$ 3,162,513</b> |            | <b>\$ 3,465,326</b> |

### Other Information Pertaining to Other Liabilities

#### Fluctuations

**Total Intra-governmental Other Liabilities.** The \$342 million decrease from FY 01 to FY 02 was caused by DMAG. In FY 01 Fund Balance with Treasury and Unearned Revenue/Advances from Others increased by \$342 from the prior year. In FY 01 the overall AFWCF cash balance was approaching a critically low level, and the AFWCF is required to maintain an operating cash balance of at least \$200 million. SAF and HQ AFMC requested DMAG to advance bill their customers to bring in the cash required in the amount of \$500 million. The full effect of the advance billings was not realized because in FY 01 the AFWCF exceeded planned net operating losses in the amount of \$137 million. DMAG did not issue advance billings in FY 02 at the end of the year, so the DMAG Unearned Revenue/Advances from Others returned to its normal level.

| Intra-Governmental—<br>Other Liabilities (in Thousands) |              |                 |
|---|--------------|-----------------|
|   | FY 2002      | FY 2001         |
| DMAG  | 8,222        | \$ 5,329        |
| ISAG  | 541          | 338             |
| SMAG  | 867          | 487             |
| <b>Total</b>  | <b>9,630</b> | <b>\$ 6,154</b> |

Other liabilities consist of \$9,630 million accrued payroll and employer contributions payable. These liabilities are classified as intra-governmental as they are provided by the Department of Labor and elimination entries are necessary.

| <b>Non-Federal—Other Liabilities (in Thousands)</b>      |  | <b>FY 2002</b>     | <b>FY 2001</b>     |
|--|--|--------------------|--------------------|
| DMAG—Progress Billings                                   |  | 915,608            | \$834,599          |
| DMAG—WIP Accrued Expenses                                |  | 1,958,864          | 1,924,638          |
| ISAG—Contract Services/Various Miscellaneous Items       |  | 0                  | 116,929            |
| SMAG—Contract Holdbacks                                  |  | 274                | \$274              |
| SMAG—Future Purchase—Foreign Military Sales              |  | 92,227             | 83,808             |
| Component—Reclass of Abnormal Public Accounts Receivable |  | 35,427             | 0                  |
| <b>Total</b>   |  | <b>\$3,002,400</b> | <b>\$2,960,248</b> |

The SMAG Other Liabilities related to Foreign Military Sales arrive from money that various countries have deposited with the SMAG as a buy in on future purchases they plan to make under the foreign military sales program. These funds are considered a liability as the funds are returned if the countries do not make future purchases. Revenue is not recognized on these transactions until the purchase takes place.

The Component Other Liabilities is related to an abnormal Non-Federal Accounts Receivable amount. The amount was abnormal because of Undistributed Collections. FACTS I will not accept an abnormal balance in Non-Federal Accounts Receivable, therefore the amount was reclassified as a Non-Federal Other Liability.

#### Note Reference

See Note Disclosure 1.S, Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.

### Note 16. Commitments and Contingencies

Not applicable.

### Note 17. Military Retirement Benefits and Other Employment Related Actuarial Liabilities

| As of September 30,<br>(Amounts in Thousands) | 2002   |                           |  | 2001                         |
|---|--|---------------------------|--|------------------------------|
|   | Actuarial Present Value of Projected Plan Benefits | Assumed Interest Rate (%) | (Less: Assets Available to Pay Benefits) | Unfunded Actuarial Liability |
| FECA  | \$ 247,750   |                           | \$ 0                                     | \$ 247,750                   |
|   |  |                           |  | \$ 242,137                   |

#### FECA

The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit

payments have been discounted to present value using the OMB economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

|                 |
|-----------------|
| 2002            |
| 5.20% in year 1 |
| 5.20% in year 2 |
| And thereafter  |

To provide more specifically for the effects of inflation on the liability for FWC benefits wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. These factors were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

| CBY  | COLA  | CPIM  |
|------|-------|-------|
| 2003 | 1.80% | 4.31% |
| 2004 | 2.67% | 4.01% |
| 2005 | 2.40% | 4.01% |
| 2006 | 2.40% | 4.01% |

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ration calculated for the prior projection.

## Note 18. Unexpended Appropriations

Not applicable.

## Note 19.A. General Disclosures Related to the Statement of Net Cost

### Disclosures Related to the Statement of Net Cost

The Consolidated Statement of Net Cost in the federal government is unique because its principles are driven on understanding the net cost and/or organizations that the federal government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity.

### Working Capital Funds

While the Air Force Working Capital Funds (WCFs) generally record transactions on an accrual basis as is required by generally accepted accounting principles, the systems do not always capture actual costs. Information presented on the Statement of Net Cost (SoNC) is primarily based on budgetary obligation, disbursements, or collection transactions, as well as information from non-financial feeder systems.

## Fluctuations

The primary reason for the decrease in revenue from sales of goods and services was because effective October 2001, the Fuels Division reporting was transferred to the Defense Energy Supply Center (DESC). Only residual balances are now being reported for the Fuels Division.

## Prior Period Adjustments

The DFAS Arlington Prior Period Adjustment Panel, consisting of DFAS-Arlington and OSD personnel, determined the below prior period adjustments recorded in the 1307 report to be either immaterial at the audited financial statement level or not of an infrequent nature. The prior period adjustments were previously coordinated with applicable customers and are material at the business area level of the 1307 report. Based upon instructions from this panel, the prior period adjustments were reclassified and recorded as current year transactions effecting revenues and expenses depending on which account would have been effected had the correction been made in the same year as the error.

## Supply Management—Materiel Support Division

Revenues were decreased by \$84,895,544.81 to correctly state Accounts Receivables balances due to posting errors in prior years. Expenses were increased \$29,733,499.94 to correct an erroneous journal voucher posted for progress payments in a prior year.

## Depot Maintenance

Overall, DMAG reclassified \$12,253,038.67 from Standard General Ledger (SGL) 7400, Prior Period Adjustment, to SGL 6100, Operating Expenses, and reclassified \$1,723,577.08 from SGL 7400 to SGL 5200, Revenue.

|                         |  |
|-------------------------|--|
| Oklahoma City, Organic  | \$26,446,596.04 debited to Operating Expenses    |
| Warner Robins, Contract | \$1,264,971.39 debited to Operating Expenses     |
| Warner Robins, Organic  | \$5,207,302.60 debited to Operating Expenses     |
| Ogden, Contract         | (\$20,665,831.36) credited to Operating Expenses |
| Davis-Monthan           | (\$1,723,577.08) credited to Revenue             |

The net prior period adjustment for Oklahoma City and Warner Robins was due to expenses reported in FY02 that should have been reported in FY01 and to correct the Beginning of Period Work-in-Process (WIP) value, as instructed by HQ AFMC after auditors identified the problem.

The purpose of Ogden's prior period adjustment was to close out the Accounts Payable Non-Federal Contract general ledger account. The balance in that account was erroneous due to a duplicate Journal Voucher posting in FY 99, one JV prepared by Hill and the other prepared by San Bernardino.

The net prior period adjustment for Davis-Monthan was due to an increase/adjustment in Account Receivable to reflect the actual amount of open invoices.

## Note 19.B. Imputed Expenses

| As of September 30,                         | 2002              | 2001              |
|---|-------------------|-------------------|
| (Amount in thousands)                       |                   |                   |
| <b>Civilian (e.g.,CSRS/FERS) Retirement</b> | \$ 48,268         | \$ 47,613         |
| <b>Civilian Health</b>                      | 78,711            | 76,614            |
| <b>Civilian Life Insurance</b>              | 224               | 204               |
| <b>Total Imputed Expenses</b>               | <u>\$ 127,203</u> | <u>\$ 124,431</u> |

## Note 19.C. Intra-governmental Revenue and Expense

### Intra-governmental Revenue

The Department's accounting systems do not capture trading partner data at the transaction level in a manner that facilitated trading partner aggregations. Therefore, the Department was unable to reconcile intra-governmental revenue balances with its trading partners. The Department intends to develop long-term system improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

### Intra-governmental Expenses

The Department's operating expenses were adjusted based on a comparison between the Department's Accounts Payable and the DoD summary level seller accounts receivables. An adjustment was posted to Accounts Payable and Operating Expenses to reflect unrecognized Accounts Payable and Operating Expenses. The operating expense for the Department were adjusted upwards in the amount of \$1,652,304 thousand.

## Note 20. Disclosures Related to the Statement of Changes in Net Position

| As of September 30,  | Cumulative Results of Operations 2002 | Unexpended Appropriations 2002 | Cumulative Results of Operations 2001 | Unexpended Appropriations 2001 |
|--|---------------------------------------|--------------------------------|---------------------------------------|--------------------------------|
| (Amounts in thousands)   |                                       |                                |                                       |                                |
| <b>Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:</b> |                                       |                                |                                       |                                |
| Other Prior Period Adjustments   | \$ 1,628,844                          | \$ 0                           | \$ (3,462,470)                        | \$ 0                           |
| <b>Imputed Financing:</b>  |                                       |                                |                                       |                                |
| Civilian CSRS/FERS Retirement  | \$ 48,268                             | \$ 0                           | \$ 47,613                             | \$ 0                           |
| Civilian Health  | 78,711                                | 0                              | 76,614                                | 0                              |
| Civilian Life Insurance  | 224                                   | 0                              | 204                                   | 0                              |
| <b>Total Imputed Financing</b>   | <u>\$ 127,203</u>                     | <u>\$ 0</u>                    | <u>\$ 124,431</u>                     | <u>\$ 0</u>                    |

## Other Information

### Prior Period Adjustments

In accordance with a memo from OSD dated August 12, 2002, a policy change was implemented which discontinued the adjustment for inventory valuation for the amount of excess, obsolete and unserviceable inventory. As a result of this policy change, \$1.6 billion of excess inventory was not recognized. The prior period adjustment reversed expenses that were recognized in prior years, and decreased the inventory allowance account, which had an overall impact of increasing inventory. This adjustment was processed incorrectly on the 1307 report and will be corrected in FY03.

## Note 21.A. Disclosures Related to the Statement of Budgetary Resources

| As of September 30,<br>(Amounts in thousands)  | 2002             | 2001             |
|--|------------------|------------------|
| <b>Net Amount of Budgetary Resources Obligated<br/>for Undelivered Orders at the End of the Period</b> | \$ 5,698,622     | \$ 5,312,691     |
| <b>Available Borrowing and Contract Authority at<br/>the End of the Period</b>                         | <u>1,444,971</u> | <u>1,093,918</u> |

### Other Information

The Department has identified the Government Performance and Results Act (GPRA) performance measures based on missions and outputs. The Department, however, is unable to accumulate costs for major programs based on those performance measures, because its financial processes and systems were not designed to collect and report this type of cost information. Until the process and systems are upgraded, the Department will break out programs by its nine major appropriation groupings.

### Undelivered Orders Presented in Statement of Budgetary Resources

Undelivered Orders presented in the Statement of Budgetary Resources includes Undelivered Orders-Unpaid for both Direct and Reimbursable funds. It does not include Undelivered Orders-Paid.

### Spending Authority from Offsetting Collections

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in the "Adjustments" line on the Statement of Budgetary Resources), are not included in "Spending Authority From Offsetting Collections and Adjustments" line of the Statement of Budgetary Resources or the "Spending Authority for Offsetting Collections and Adjustments" line of the Statement of Financing.

Intra-entity transactions have not been eliminated because the statements are present as combined and combining.

### Budget Authority

Depot Maintenance received an appropriation in the amount of \$3,100 thousand through a Treasury Appropriation Warrant.

Supply Management received an appropriation in the amount of \$29,786 thousand through a Treasury Appropriation Warrant.

## Note 21.B. Disclosures Related to Problem Disbursements, In-transit Disbursements and Suspense/Budget Clearing Accounts

| As of September 30,                        | Sep 2000          | Sep 2001          | Sep 2002          | (Decrease)/<br>Increase from<br>2001 to 2002 |
|--|-------------------|-------------------|-------------------|--|
| (Amounts in thousands)                     |                   |                   |                   |  |
| <b>Total Problem Disbursements</b>         |                   |                   |                   |  |
| Absolute Unmatched Disbursements           | \$ 1,000          | \$ 4,000          | \$ 4,000          | \$ 0   |
| Negative Unliquidated Obligations          | 17,000            | 16,000            | 11,000            | (5,000)                                      |
| <b>Total In-transit Disbursements, Net</b> | <b>\$ 545,000</b> | <b>\$ 606,000</b> | <b>\$ 538,000</b> | <b>\$ (68,000)</b>                           |

### Other Information Related to Suspense/Budget Clearing Accounts

The Air Force has \$553 million in problem disbursements and in-transit disbursements that represent disbursements of Air Force working capital funds that have been reported by a disbursing station to the Department of the Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursements. For the most part, these payments have been made using available funds and based on valid receiving reports for goods and services delivered under valid contracts. The problem disbursements and in-transit disbursements arise when the various contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the disbursement transactions in all applicable accounting systems. Defense Finance and Accounting Service has efforts underway to improve the systems and to resolve all previous problem disbursements and to process all in-transit disbursements. As of September 30, 2002, these efforts resulted in a \$5 million decrease in reported problem disbursements since September 2001. Intransit disbursements decreased \$68 million since September 2001. The amount over 180 days old for NULOs is \$1 million and for Intransits is \$(3) million. The absolute value of intransit disbursements is \$1.2 billion.

## Note 22. Disclosures Related to the Statement of Financing

### Disclosures Related to the Statement of Financing

The objective of the Statement of Financing is to help users understand the difference between budgetary and net cost of operations reported. The statement provides this understanding through a comprehensive reconciliation process.

The statement of financing was expanded to further articulate and detail the relationship between net obligations from budgetary accounting and net cost of operation from proprietary accounting. Some items that were reported last year as a single line were subdivided to reflect its components. Several new line items were added to separately identify and further explain the use of resources to finance net obligations or net cost of operations. This change notes key differences between the net obligations and net cost of operations.

### Other Information Related to the Statement of Financing

#### Statement of Financing Adjustments

Budgetary data is not in agreement with Proprietary Expenses and Assets Capitalized. This causes a difference in Net Cost between the Statement of Net Cost and the Statement of Financing. On the Statement of Financing, resources that finance the acquisition of assets is adjusted in order to align the amount of net cost on the Statement of Financing with the amount reported on the Statement of Net Cost. Detail of adjustments follow.

| <b>Statement of Financing<br/>Adjustments (in Thousands)</b> |                      |
|--|----------------------|
| <b>SOF Line 15<br/>Adjustments</b>                           |                      |
| <b>AF TRANS</b>  | 144                  |
| <b>DMAG</b>  | (786,219)            |
| <b>ISAG</b>  | (11,771)             |
| <b>SMAG</b>  | (604,276)            |
| <b>Total</b>   | <b>(\$1,402,123)</b> |

### Intra-entity Transaction

Intra-entity transactions have not been eliminated because the statements are presented as combined and combining.

## Note 23. Disclosures Related to the Statement of Custodial Activity

Not applicable.

## Note 24.A. Other Disclosures

### Undistributed Collections and Disbursements

Timing differences often occur between Treasury recording cash transactions and the field recording transactions in the general ledger. The differences are accounted for in the undistributed collection and disbursements accounts, which offset Accounts Receivable and Accounts Payable in the accounting records. Undistributed amounts are reconciled monthly to ensure that they are fully supported. With the exception of the Materiel Support Division, all of the undistributed transactions are 100% supported.

Various categories make up the total undistributed. Intransit items and uncleared interfund represent the majority of the undistributed. The intransit category consists of transactions that are paid/collected by one entity on behalf of another entity. The transaction is recorded at Treasury in the month of occurrence, however it generally takes 30-60 days to be distributed to the accountable entity. Interfund transactions are Intra-governmental no check drawn transactions that are generated by the billing activity at end of month. They are then transmitted to a central location to be distributed to the accountable entity. Since this is an end of month process, the accountable entity does not receive the data until the next month. Recons and suspense are also a category of undistributed. Recons are created when the cumulative disbursements and collections reported by the field entities on monthly reports do not equal cumulative amounts generated from current month transactions. When differences occur between the field-level weekly and monthly reports, the amount is suspended until out of balances can be researched and corrected in subsequent months. The suspense category may also contain amounts that are not supported by voucher data, but have been reported to Treasury. Once again, this is researched and corrected. Other miscellaneous posting errors can contribute to undistributed balances, which are identified monthly and corrected at the appropriate location.

The Materiel Support Division currently has an unsupported balance of \$48M. In FY02, the unsupported balance has been stabilized for the most part. The accountability for this appropriation is shared between Denver and Columbus. Denver is taking over accountability for the entire appropriation in FY03. This will bring all of the supporting information into Denver systems and will allow complete reconciliation. ISAG currently has an unsupported balance of \$16M,

which is also stabilized. Research is being conducted with the Cleveland DFAS center to resolve the unsupported amounts. Overall, the unsupported undistributed represents 10 percent of the total undistributed.

Performance measurements are in place to ensure timely processing of AFWCF transactions. In addition, new systems were implemented in FY01 that should impact the time frames involved in processing transactions in future years, which should decrease the total undistributed.

# Working Capital Fund

## Consolidating and Combining Statements



## Consolidating Balance Sheet—Working Capital Fund

As of September 30, 2002 and 2001 (\$ in thousands)

|   | <b>Depot<br/>Maintenance</b> | <b>Supply<br/>Management</b> | <b>Information<br/>Services</b> |
|---|------------------------------|------------------------------|---------------------------------|
| <b>ASSETS (Note 2)</b>                                    |                              |                              |                                 |
| Intragovernmental:  |                              |                              |                                 |
| Fund Balance with Treasury (Note 3)                       | 309,500                      | 92,324                       | 47,413                          |
| Accounts Receivable (Note 5)                              | 592,181                      | 387,297                      | 57,260                          |
| Other Assets (Note 6)                                     | 0                            | 2,584                        | 0                               |
| Total Intragovernmental Assets                            | <u><u>\$901,681</u></u>      | <u><u>\$482,205</u></u>      | <u><u>\$104,673</u></u>         |
| Cash and Other Monetary Assets (Note 7)                   | 0                            | 0                            | 4                               |
| Accounts Receivable (Note 5)                              | 13,164                       | 2,064                        | 2                               |
| Inventory and Related Property (Note 9)                   | 2,086,779                    | 11,905,180                   | 0                               |
| General Property, Plant and Equipment (Note 10)           | 1,050,180                    | 237,896                      | 32,531                          |
| Other Assets (Note 6)                                     | 53,100                       | 477,235                      | 0                               |
| <b>TOTAL ASSETS</b>                                       | <u><u>\$4,104,904</u></u>    | <u><u>\$13,104,580</u></u>   | <u><u>\$137,210</u></u>         |
| <b>LIABILITIES (Note 11)</b>                              |                              |                              |                                 |
| Intragovernmental:  |                              |                              |                                 |
| Accounts Payable (Note 12)                                | 200,209                      | 362,580                      | 619                             |
| Other Liabilities (Note 15 & Note 16)                     | 12,560                       | 867                          | 541                             |
| Total Intragovernmental Liabilities                       | <u><u>\$212,769</u></u>      | <u><u>\$363,447</u></u>      | <u><u>\$1,160</u></u>           |
| Accounts Payable (Note 12)                                | 15,551                       | 1,759,490                    | 136,821                         |
| Military Retirement Benefits and Other Employment-Related |                              |                              |                                 |
| Actuarial Liabilities (Note 17)                           | 214,329                      | 22,424                       | 10,997                          |
| Other Liabilities (Note 15 and Note 16)                   | 3,005,708                    | 101,152                      | 8,843                           |
| <b>TOTAL LIABILITIES</b>                                  | <u><u>\$3,448,357</u></u>    | <u><u>\$2,246,513</u></u>    | <u><u>\$157,821</u></u>         |
| NET POSITION  |                              |                              |                                 |
| Cumulative Results of Operations                          | 656,547                      | 10,858,067                   | -20,611                         |
| <b>TOTAL NET POSITION</b>                                 | <u><u>\$656,547</u></u>      | <u><u>\$10,858,067</u></u>   | <u><u>-\$20,611</u></u>         |
| <b>TOTAL LIABILITIES AND NET POSITION</b>                 | <u><u>\$4,104,904</u></u>    | <u><u>\$13,104,580</u></u>   | <u><u>\$137,210</u></u>         |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 21.

| <b>Transportation</b> | <b>Component Level</b> | <b>Combined Total</b> | <b>Intra-Entity Eliminations</b> | <b>2002 Consolidated</b> | <b>2001 Restated Consolidated</b> | <b>2001 Consolidated</b> |
|-----------------------|------------------------|-----------------------|----------------------------------|--------------------------|-----------------------------------|--------------------------|
| 10,102                | 3,973                  | 463,312               | 0                                | 463,312                  | 556,603                           | 556,603                  |
| 0                     | 0                      | 1,036,738             | 408,713                          | 628,025                  | 461,229                           | 461,229                  |
| 0                     | 0                      | 2,584                 | 2,584                            | 0                        | 57,320                            | 57,320                   |
| <b>\$10,102</b>       | <b>\$3,973</b>         | <b>\$1,502,634</b>    | <b>\$411,297</b>                 | <b>\$1,091,337</b>       | <b>\$1,075,152</b>                | <b>\$1,075,152</b>       |
| 0                     | 0                      | 4                     | 0                                | 4                        | 0                                 | 0                        |
| 617                   | 0                      | 15,847                | 0                                | 15,847                   | 105,290                           | 105,290                  |
| 0                     | 0                      | 13,991,959            | 0                                | 13,991,959               | 12,685,228                        | 11,056,384               |
| 202                   | 0                      | 1,320,809             | 0                                | 1,320,809                | 1,258,047                         | 1,258,047                |
| 0                     | 0                      | 530,335               | 0                                | 530,335                  | 468,474                           | 468,474                  |
| <b>\$10,921</b>       | <b>\$3,973</b>         | <b>\$17,361,588</b>   | <b>\$411,297</b>                 | <b>\$16,950,291</b>      | <b>\$15,592,191</b>               | <b>\$13,963,347</b>      |
| 0                     | 1                      | 563,409               | 408,713                          | 154,696                  | 143,833                           | 143,833                  |
| 0                     | 0                      | 13,968                | 2,584                            | 11,384                   | 353,537                           | 353,537                  |
| <b>\$0</b>            | <b>\$1</b>             | <b>\$577,377</b>      | <b>\$411,297</b>                 | <b>\$166,080</b>         | <b>\$497,370</b>                  | <b>\$497,370</b>         |
| 1,973                 | -122,368               | 1,791,467             | \$ 0                             | 1,791,467                | 1,328,019                         | 1,328,019                |
| 0                     | 0                      | 247,750               | 0                                | 247,750                  | 242,137                           | 242,137                  |
| 0                     | 35,426                 | 3,151,129             | 0                                | 3,151,129                | 3,111,789                         | 3,111,789                |
| <b>\$1,973</b>        | <b>-\$86,941</b>       | <b>\$5,767,723</b>    | <b>\$411,297</b>                 | <b>\$5,356,426</b>       | <b>\$5,179,315</b>                | <b>\$5,179,315</b>       |
| 8,948                 | 90,914                 | 11,593,865            | 0                                | 11,593,865               | 10,412,876                        | 8,784,032                |
| <b>\$8,948</b>        | <b>\$90,914</b>        | <b>\$11,593,865</b>   | <b>\$ 0</b>                      | <b>\$11,593,865</b>      | <b>\$10,412,876</b>               | <b>\$8,784,032</b>       |
| <b>\$10,921</b>       | <b>\$3,973</b>         | <b>\$17,361,588</b>   | <b>\$411,297</b>                 | <b>\$16,950,291</b>      | <b>\$15,592,191</b>               | <b>\$13,963,347</b>      |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 21.

## Consolidating Statement of Net Cost—Working Capital Fund

For the years ended September 30, 2002 and 2001 (\$ in thousands)

|  | <b>Combined<br/>Total</b>       | <b>Eliminations</b>      | <b>2002<br/>Consolidated</b>    | <b>2001<br/>Restated<br/>Consolidated</b> | <b>2001<br/>Consolidated</b>     |
|--|---------------------------------|--------------------------|---------------------------------|---|----------------------------------|
| <b>PROGRAMS COST</b>                     |                                 |                          |                                 |   |                                  |
| <b>Component Level</b>                   |                                 |                          |                                 |   |                                  |
| Gross Costs With the Public              | -2,474                          | 0                        | -2,474                          | 0   | 0                                |
| Total Net Cost                           | <u><u>-\$2,474</u></u>          | <u><u>\$0</u></u>        | <u><u>-\$2,474</u></u>          | <u><u>\$0</u></u>                         | <u><u>\$0</u></u>                |
| <b>Depot Maintenance</b>                 |                                 |                          |                                 |   |                                  |
| Intragovernmental Gross Costs            | 3,313,796                       | 2,363,856                | 949,940                         | 1,064,822                                 | 1,064,822                        |
| (Less: Intragovernmental Earned Revenue) | <u><u>-6,583,720</u></u>        | <u><u>-2,708,680</u></u> | <u><u>-3,875,040</u></u>        | <u><u>-3,365,647</u></u>                  | <u><u>-3,365,647</u></u>         |
| Intragovernmental Net Costs              | <u><u>-3,269,924</u></u>        | <u><u>-344,824</u></u>   | <u><u>-2,925,100</u></u>        | <u><u>-2,300,825</u></u>                  | <u><u>-2,300,825</u></u>         |
| Gross Costs With the Public              | 2,989,168                       | 0                        | 2,989,168                       | 3,512,605                                 | 3,512,605                        |
| (Less: Earned Revenue From the Public)   | <u><u>-128,110</u></u>          | <u><u>0</u></u>          | <u><u>-128,110</u></u>          | <u><u>-103,967</u></u>                    | <u><u>-103,967</u></u>           |
| Net Costs With the Public                | <u><u>2,861,058</u></u>         | <u><u>0</u></u>          | <u><u>2,861,058</u></u>         | <u><u>3,408,638</u></u>                   | <u><u>3,408,638</u></u>          |
| Total Net Cost                           | <u><u>-\$408,866</u></u>        | <u><u>-\$344,824</u></u> | <u><u>-\$64,042</u></u>         | <u><u>\$1,107,813</u></u>                 | <u><u>\$1,107,813</u></u>        |
| <b>Information Services</b>              |                                 |                          |                                 |   |                                  |
| Intragovernmental Gross Costs            | 27,400                          | 66                       | 27,334                          | 62,041                                    | 62,041                           |
| (Less: Intragovernmental Earned Revenue) | <u><u>-607,945</u></u>          | <u><u>-152,949</u></u>   | <u><u>-454,996</u></u>          | <u><u>-408,013</u></u>                    | <u><u>-408,013</u></u>           |
| Intragovernmental Net Costs              | <u><u>-580,545</u></u>          | <u><u>-152,883</u></u>   | <u><u>-427,662</u></u>          | <u><u>-345,972</u></u>                    | <u><u>-345,972</u></u>           |
| Gross Costs With the Public              | 609,888                         | 0                        | 609,888                         | 507,899                                   | 507,899                          |
| (Less: Earned Revenue From the Public)   | <u><u>-19,885</u></u>           | <u><u>0</u></u>          | <u><u>-19,885</u></u>           | <u><u>0</u></u>                           | <u><u>0</u></u>                  |
| Net Costs With the Public                | <u><u>590,003</u></u>           | <u><u>0</u></u>          | <u><u>590,003</u></u>           | <u><u>507,899</u></u>                     | <u><u>507,899</u></u>            |
| Total Net Cost                           | <u><u>\$9,458</u></u>           | <u><u>-\$152,883</u></u> | <u><u>\$162,341</u></u>         | <u><u>\$161,927</u></u>                   | <u><u>\$161,927</u></u>          |
| <b>Supply Management</b>                 |                                 |                          |                                 |   |                                  |
| Intragovernmental Gross Costs            | 6,719,246                       | 2,832,417                | 3,886,829                       | 5,540,632                                 | 5,540,632                        |
| (Less: Intragovernmental Earned Revenue) | <u><u>-8,912,075</u></u>        | <u><u>-2,334,710</u></u> | <u><u>-6,577,365</u></u>        | <u><u>-7,767,617</u></u>                  | <u><u>-7,767,617</u></u>         |
| Intragovernmental Net Costs              | <u><u>-2,192,829</u></u>        | <u><u>497,707</u></u>    | <u><u>-2,690,536</u></u>        | <u><u>-2,226,985</u></u>                  | <u><u>-2,226,985</u></u>         |
| Gross Costs With the Public              | 1,770,726                       | 0                        | 1,770,726                       | 5,585,903                                 | 5,585,903                        |
| (Less: Earned Revenue From the Public)   | <u><u>-159,209</u></u>          | <u><u>0</u></u>          | <u><u>-159,209</u></u>          | <u><u>-330,077</u></u>                    | <u><u>-330,077</u></u>           |
| Net Costs With the Public                | <u><u>1,611,517</u></u>         | <u><u>0</u></u>          | <u><u>1,611,517</u></u>         | <u><u>5,255,826</u></u>                   | <u><u>5,255,826</u></u>          |
| Total Net Cost                           | <u><u>-\$581,312</u></u>        | <u><u>\$497,707</u></u>  | <u><u>-\$1,079,019</u></u>      | <u><u>\$3,028,841</u></u>                 | <u><u>\$3,028,841</u></u>        |
| <b>Transportation</b>                    |                                 |                          |                                 |   |                                  |
| (Less: Earned Revenue From the Public)   | <u><u>-820</u></u>              | <u><u>0</u></u>          | <u><u>-820</u></u>              | <u><u>0</u></u>                           | <u><u>0</u></u>                  |
| Total Net Cost                           | <u><u>-\$820</u></u>            | <u><u>\$0</u></u>        | <u><u>-\$820</u></u>            | <u><u>\$0</u></u>                         | <u><u>\$0</u></u>                |
| <b>Total Program Costs</b>               |                                 |                          |                                 |   |                                  |
| Intragovernmental Gross Costs            | 10,060,442                      | 5,196,339                | 4,864,103                       | 6,667,495                                 | 6,667,495                        |
| (Less: Intragovernmental Earned Revenue) | <u><u>-16,103,740</u></u>       | <u><u>-5,196,339</u></u> | <u><u>-10,907,401</u></u>       | <u><u>-11,541,277</u></u>                 | <u><u>-11,541,277</u></u>        |
| Intragovernmental Net Costs              | <u><u>-6,043,298</u></u>        | <u><u>0</u></u>          | <u><u>-6,043,298</u></u>        | <u><u>-4,873,782</u></u>                  | <u><u>-4,873,782</u></u>         |
| Gross Costs With the Public              | 5,367,308                       | 0                        | 5,367,308                       | 7,977,563                                 | 9,606,407                        |
| (Less: Earned Revenue From the Public)   | <u><u>-308,024</u></u>          | <u><u>0</u></u>          | <u><u>-308,024</u></u>          | <u><u>-434,044</u></u>                    | <u><u>-434,044</u></u>           |
| Net Costs With the Public                | <u><u>5,059,284</u></u>         | <u><u>0</u></u>          | <u><u>5,059,284</u></u>         | <u><u>7,543,519</u></u>                   | <u><u>9,172,363</u></u>          |
| <b>NET COST OF OPERATIONS</b>            | <b><u><u>-\$984,014</u></u></b> | <b><u><u>\$0</u></u></b> | <b><u><u>-\$984,014</u></u></b> | <b><u><u>\$2,669,737</u></u></b>          | <b><u><u>\$4,298,581</u></u></b> |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 19.

## Consolidating Statement of Changes in Net Position—Working Capital Fund

For the years ended September 30, 2002 and 2001 (\$ in thousands)

|   | <b>Depot Maintenance</b>                | <b>Supply Management</b>         |
|---|---|----------------------------------|
|   | <b>Cumulative Results of Operations</b> | <b>Unexpended Appropriations</b> |
|   | <b>Cumulative Results of Operations</b> | <b>Unexpended Appropriations</b> |
| <b>BEGINNING BALANCES</b>                       | 217,215                                 | 0                                |
| Prior period adjustments (+/-)                  | 0                                       | 0                                |
| <b>BEGINNING BALANCES, ADJUSTED</b>             | <b>\$217,215</b>                        | <b>\$0</b>                       |
| <b>BUDGETARY FINANCING SOURCES</b>              |   |                                  |
| Appropriations received                         | 0                                       | 3,100                            |
| Appropriations used                             | 3,100                                   | -3,100                           |
| Other budgetary financing sources (+/-)         | 0                                       | 0                                |
| <b>OTHER FINANCING SOURCES</b>                  |   |                                  |
| Transfers-in/out without reimbursement (+/-)    | -80,437                                 | 0                                |
| Imputed financing from costs absorbed by others | 107,803                                 | 0                                |
| <b>TOTAL FINANCING SOURCES</b>                  | <b>\$30,466</b>                         | <b>\$0</b>                       |
| <b>NET COST OF OPERATIONS (+/-)</b>             | <b>-408,866</b>                         | <b>0</b>                         |
| <b>ENDING BALANCES</b>                          | <b>\$656,547</b>                        | <b>\$0</b>                       |
|   |   | <b>\$10,858,067</b>              |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 20.

## Consolidating Statement of Changes in Net Position—Working Capital Fund (Continued)

| Information Services             |                           | Transportation                   |                           | Component Level                  |                           | Combined Total                   |                           |
|----------------------------------|---------------------------|----------------------------------|---------------------------|----------------------------------|---------------------------|----------------------------------|---------------------------|
| Cumulative Results of Operations | Unexpended Appropriations |
| -18,144                          | 0                         | 48,642                           | 0                         | 88,440                           | 0                         | 8,784,032                        | 0                         |
| 0                                | 0                         | 0                                | 0                         | 0                                | 0                         | 1,628,844                        | 0                         |
| <b>-\$18,144</b>                 | <b>\$0</b>                | <b>\$48,642</b>                  | <b>\$0</b>                | <b>\$88,440</b>                  | <b>\$0</b>                | <b>\$10,412,876</b>              | <b>\$0</b>                |
| 0                                | 0                         | 0                                | 0                         | 0                                | 0                         | 0                                | 32,886                    |
| 0                                | 0                         | 0                                | 0                         | 0                                | 0                         | 32,886                           | -32,886                   |
| 0                                | 0                         | 0                                | 0                         | 0                                | 0                         | 0                                | 0                         |
| 0                                | 0                         | -40,515                          | 0                         | 0                                | 0                         | 36,886                           | 0                         |
| 6,992                            | 0                         | 0                                | 0                         | 0                                | 0                         | 127,203                          | 0                         |
| <b>\$6,992</b>                   | <b>\$0</b>                | <b>-\$40,515</b>                 | <b>\$0</b>                | <b>\$0</b>                       | <b>\$0</b>                | <b>\$196,975</b>                 | <b>\$0</b>                |
| 9,458                            | 0                         | -820                             | 0                         | -2,474                           | 0                         | -984,014                         | 0                         |
| <b>-\$20,610</b>                 | <b>\$0</b>                | <b>\$8,947</b>                   | <b>\$0</b>                | <b>\$90,914</b>                  | <b>\$0</b>                | <b>\$11,593,865</b>              | <b>\$0</b>                |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 20.

## Consolidating Statement of Changes in Net Position—Working Capital Fund (Continued)

| Eliminations | 2002 Consolidated Total          |                           | Restated 2001 Consolidated       |                           | 2001 Consolidated Total          |                           |
|--------------|----------------------------------|---------------------------|----------------------------------|---------------------------|----------------------------------|---------------------------|
|              | Cumulative Results of Operations | Unexpended Appropriations | Cumulative Results of Operations | Unexpended Appropriations | Cumulative Results of Operations | Unexpended Appropriations |
| 0            | 8,784,032                        | 0                         | 16,474,636                       | 0                         | 16,474,636                       | 0                         |
| 0            | 1,628,844                        | 0                         | -3,462,470                       | 0                         | -3,462,470                       | 0                         |
| \$0          | <u>\$10,412,876</u>              | <u>\$0</u>                | <u>\$13,012,166</u>              | <u>\$0</u>                | <u>\$13,012,166</u>              | <u>\$0</u>                |
|              |                                  |                           |                                  | 0                         |                                  |                           |
| 0            | 0                                | 32,886                    | 0                                | 0                         | 0                                | 0                         |
| 0            | 32,886                           | -32,886                   | 8,375                            | 0                         | 8,375                            | 0                         |
| 0            | 0                                | 0                         |                                  |                           | -92,576                          | 0                         |
|              |                                  |                           |                                  | 0                         |                                  |                           |
| 0            | 36,886                           | 0                         | 30,216                           | 0                         | 30,216                           | 0                         |
| 0            | 127,203                          | 0                         | 124,432                          | 0                         | 124,432                          | 0                         |
| \$0          | <u>\$196,975</u>                 | <u>\$0</u>                | <u>\$2,669,737</u>               | <u>\$0</u>                | <u>\$70,447</u>                  | <u>\$0</u>                |
|              |                                  |                           |                                  |                           |                                  |                           |
| 0            | -984,014                         | 0                         | 10,412,876                       | 0                         | 4,298,581                        | 0                         |
| \$0          | <u>\$11,593,865</u>              | <u>\$0</u>                | <u>\$10,412,876</u>              | <u>\$0</u>                | <u>\$8,784,032</u>               | <u>\$0</u>                |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 20.

## Combining Statement of Budgetary Resources—Working Capital Fund

For the years ended September 30, 2002 and 2001 (\$ in thousands)

|   | Depot Maintenance  |               | Supply Management  |               | Information Services |               |
|---|--------------------|---------------|--------------------|---------------|----------------------|---------------|
|   | Budgetary          | Non Budgetary | Budgetary          | Non Budgetary | Budgetary            | Non Budgetary |
| <b>BUDGETARY RESOURCES</b>                      |                    |               |                    |               |                      |               |
| Budget Authority:                               |                    |               |                    |               |                      |               |
| Appropriations received                         | \$3,100            | \$0           | \$29,786           | \$0           | \$0                  | \$0           |
| Contract authority                              | \$0                | \$0           | \$362,674          | \$0           | \$0                  | \$0           |
| Unobligated balance:                            |                    |               |                    |               |                      |               |
| Beginning of period                             | \$39,289           | \$0           | \$17,490           | \$0           | \$43,128             | \$0           |
| Net transfers, actual (+/-)                     | \$0                | \$0           | \$78,000           | \$0           | \$0                  | \$0           |
| Spending authority from offsetting collections: |                    |               |                    |               |                      |               |
| Earned  |                    |               |                    |               |                      |               |
| Collected                                       | 6,668,865          | 0             | 8,549,499          | 0             | 617,074              | 0             |
| Receivable from Federal sources                 | 61,155             | 0             | (51,258)           | 0             | 10,760               | 0             |
| Change in unfilled customer orders              |                    |               |                    |               |                      |               |
| Advance received                                | (262,178)          | 0             | 0                  | 0             | 0                    | 0             |
| Without advance from Federal sources            | 559,256            | 0             | 38,894             | 0             | (6,907)              | 0             |
| Subtotal  | \$7,027,098        | \$0           | \$8,537,135        | \$0           | \$620,927            | \$0           |
| Recoveries of prior year obligations            | 0                  | 0             | 0                  | 0             | 0                    | 0             |
| Permanently not available                       | (24,490)           | 0             | (104,868)          | 0             | (12,728)             | 0             |
| <b>TOTAL BUDGETARY RESOURCES</b>                | <b>\$7,044,997</b> | <b>\$0</b>    | <b>\$8,920,217</b> | <b>\$0</b>    | <b>\$651,327</b>     | <b>\$0</b>    |
| <b>STATUS OF BUDGETARY RESOURCES</b>            |                    |               |                    |               |                      |               |
| Obligations incurred:                           |                    |               |                    |               |                      |               |
| Direct  | 3,100              | 0             | 29,786             | 0             | 0                    | 0             |
| Reimbursable                                    | 6,867,541          | 0             | 8,861,145          | 0             | 645,090              | 0             |
| Subtotal  | 6,870,641          | 0             | 8,890,931          | 0             | 645,090              | 0             |
| Unobligated balance:                            |                    |               |                    |               |                      |               |
| Apportioned                                     | 174,357            | 0             | 29,286             | 0             | 6,238                | 0             |
| Exempt from apportionment                       | 0                  | 0             | 0                  | 0             | 0                    | 0             |
| Other available                                 | (1)                | 0             | 0                  | 0             | (1)                  | 0             |
| <b>TOTAL STATUS OF BUDGETARY RESOURCES</b>      | <b>\$7,044,997</b> | <b>\$0</b>    | <b>\$8,920,217</b> | <b>\$0</b>    | <b>\$651,327</b>     | <b>\$0</b>    |
| <b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:</b>  |                    |               |                    |               |                      |               |
| Obligated Balance, Net – beginning of period    |                    |               |                    |               |                      |               |
| Obligated Balance, Net – end of period:         |                    |               |                    |               |                      |               |
| Accounts receivable                             | (589,645)          | 0             | (449,282)          | 0             | (57,262)             | 0             |
| Unfilled customer order from Federal sources    | (2,442,056)        | 0             | (1,150,833)        | 0             | (205,913)            | 0             |
| Undelivered orders                              | 1,149,293          | 0             | 4,380,637          | 0             | 163,885              | 0             |
| Accounts payable                                | 2,171,441          | 0             | 467,866            | 0             | 146,824              | 0             |
| Outlays:  |                    |               |                    |               |                      |               |
| Disbursements                                   | 6,682,128          | 0             | 8,467,227          | 0             | 631,129              | 0             |
| Collections                                     | (6,406,686)        | 0             | (8,549,499)        | 0             | (617,074)            | 0             |
| Subtotal  | 275,442            | 0             | (82,272)           | 0             | 14,055               | 0             |
| Less: Offsetting receipts                       | 0                  | 0             | 0                  | 0             | 0                    | 0             |
| <b>NET OUTLAYS</b>                              | <b>\$275,442</b>   | <b>\$0</b>    | <b>-\$82,272</b>   | <b>\$0</b>    | <b>\$14,055</b>      | <b>\$0</b>    |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 21.

| Transportation |               | Component Level |               | 2002 Combined Total |               | Restated 2001 Combined |               | 2001 Combined Total |               |
|----------------|---------------|-----------------|---------------|---------------------|---------------|------------------------|---------------|---------------------|---------------|
| Budgetary      | Non Budgetary | Budgetary       | Non Budgetary | Budgetary           | Non Budgetary | Budgetary              | Non Budgetary | Budgetary           | Non Budgetary |
| \$0            | \$0           | \$0             | \$0           | \$32,886            | \$0           | \$8,375                | \$0           | \$8,375             | \$0           |
| \$0            | \$0           | \$0             | \$0           | \$362,674           | \$0           | \$503,037              | \$0           | \$503,037           | \$0           |
| \$2,825        | \$0           | \$88,440        | \$0           | \$191,172           | \$0           | \$55,603               | \$0           | \$55,603            | \$0           |
| \$0            | \$0           | \$0             | \$0           | \$78,000            | \$0           | \$65,500               | \$0           | \$65,500            | \$0           |
| 0              | 0             | 105             | 0             | 15,835,543          | 0             | 15,579,478             | 0             | 15,579,478          | 0             |
| 0              | 0             | 81,501          | 0             | 102,158             | 0             | (765,824)              | 0             | (765,824)           | 0             |
| 0              | 0             | 0               | 0             | (262,178)           | 0             | 0                      | 0             | 0                   | 0             |
| 0              | 0             | 0               | 0             | 591,243             | 0             | 455,715                | 0             | 455,715             | 0             |
| \$0            | \$0           | \$81,606        | \$0           | \$16,266,766        | \$0           | \$15,269,369           | \$0           | \$15,269,369        | \$0           |
| 0              | 0             | 0               | 0             | 0                   | 0             | 1,299                  | 0             | 1,299               | 0             |
| 1,114          | 0             | 0               | 0             | (140,972)           | 0             | (10,001)               | 0             | (10,001)            | 0             |
| \$3,939        | \$0           | \$170,046       | \$0           | \$16,790,526        | \$0           | \$15,893,182           | \$0           | \$15,893,182        | \$0           |
| 0              | 0             | 0               | 0             | 32,886              | 0             | 0                      | 0             | (2,124,484)         | 0             |
| (1,114)        | 0             | 79,132          | 0             | 16,451,794          | 0             | 0                      | 0             | 17,826,492          | 0             |
| (1,114)        | 0             | 79,132          | 0             | 16,484,680          | 0             | 0                      | 0             | 15,702,008          | 0             |
| 5,053          | 0             | 90,914          | 0             | 305,848             | 0             | 0                      | 0             | (8,987)             | 0             |
| 0              | 0             | 0               | 0             | 0                   | 0             | 0                      | 0             | 200,161             | 0             |
| 0              | 0             | 0               | 0             | (2)                 | 0             | 0                      | 0             | 0                   | 0             |
| \$3,939        | \$0           | \$170,046       | \$0           | \$16,790,526        | \$0           | \$0                    | \$0           | \$15,893,182        | \$0           |
| 7,400          | 0             | (87,639)        | 0             | 3,490,438           | 0             | 0                      | 0             | 2,791,001           | 0             |
| (617)          | 0             | 35,426          | 0             | (1,061,380)         | 0             | 0                      | 0             | (959,222)           | 0             |
| 0              | 0             | 0               | 0             | (3,798,802)         | 0             | 0                      | 0             | (3,207,561)         | 0             |
| 4,807          | 0             | 0               | 0             | 5,698,622           | 0             | 0                      | 0             | 5,312,691           | 0             |
| 1,973          | 0             | (122,368)       | 0             | 2,665,736           | 0             | 0                      | 0             | 2,344,528           | 0             |
| 123            | 0             | (3,066)         | 0             | 15,777,541          | 0             | 0                      | 0             | 15,311,380          | 0             |
| 0              | 0             | (105)           | 0             | (15,573,364)        | 0             | 0                      | 0             | (15,579,478)        | 0             |
| 123            | 0             | (3,171)         | 0             | 204,177             | 0             | 0                      | 0             | (268,098)           | 0             |
| 0              | 0             | 0               | 0             | 0                   | 0             | 0                      | 0             | 0                   | 0             |
| \$123          | \$0           | -\$3,171        | \$0           | \$204,177           | \$0           | \$0                    | \$0           | -\$268,098          | \$0           |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 21.

## Combining Statement of Financing—Working Capital Fund

For the years ended September 30, 2002 and 2001 (\$ in thousands)

|   | <b>Depot<br/>Maintenance</b> |
|---|------------------------------|
| <b>RESOURCES USED TO FINANCE ACTIVITIES</b>   |                              |
| <b>Budgetary Resources Obligated</b>  |                              |
| Obligations incurred  | 6,870,641                    |
| Less: Spending authority from offsetting collections and recoveries (-)   | -7,027,096                   |
| <b>Net obligations</b>  | <b>-156,455</b>              |
| <b>Other Resources</b>  |                              |
| Transfers in/out without reimbursement (+/-)  | 0                            |
| Imputed financing from costs absorbed by others   | 107,803                      |
| Other (+/-)   | 0                            |
| <b>Net other resources used to finance activities</b>   | <b>107,803</b>               |
| <b>TOTAL RESOURCES USED TO FINANCE ACTIVITIES</b>   | <b>-48,652</b>               |
| <b>RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS</b>   |                              |
| Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided               |                              |
| Undelivered Orders (-)  | 47,562                       |
| Unfilled Customer Orders  | 297,077                      |
| Resources that finance the acquisition of assets  | -786,219                     |
| Other (+/-)   | 0                            |
| Total resources used to finance items not part of the net cost of operations  | -441,580                     |
| <b>TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS</b>   | <b>-\$490,232</b>            |
| <b>COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:</b>  |                              |
| Components Requiring or Generating Resources in Future Periods:   |                              |
| Other (+/-)   | 2,462                        |
| Total components of Net Cost of Operations that will require or generate resources in future periods                | 2,462                        |
| <b>COMPONENTS NOT REQUIRING OR GENERATING RESOURCES</b>   |                              |
| Depreciation and amortization   |                              |
| Revaluation of assets or liabilities (+/-)  | 0                            |
| Other (+/-)   | 0                            |
| Total components of Net Cost of Operations that will not require or generate resources                              | 78,906                       |
| <b>TOTAL COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b> | <b>\$81,368</b>              |
| Net Cost of Operations  | -\$408,864                   |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 22.

| <b>Supply Management</b> | <b>Information Services</b> | <b>Transportation</b> | <b>Component Level</b> | <b>2002 Combined</b> | <b>2001 Restated</b> | <b>2001 Combined</b> |
|--------------------------|-----------------------------|-----------------------|------------------------|----------------------|----------------------|----------------------|
| 8,890,931                | 645,090                     | -1,114                | 79,132                 | 16,484,680           | 15,702,007           | 15,702,007           |
| -8,537,135               | -620,927                    | 0                     | -81,606                | -16,266,764          | -15,270,670          | -15,270,670          |
| <u>353,796</u>           | <u>24,163</u>               | <u>-1,114</u>         | <u>-2,474</u>          | <u>217,916</u>       | <u>431,337</u>       | <u>431,337</u>       |
| 0                        | 0                           | 0                     | 0                      | 0                    | -1,928               | -1,928               |
| 12,408                   | 6,992                       | 0                     | 0                      | 127,203              | 124,432              | 124,432              |
| 0                        | -3                          | 0                     | 0                      | -3                   | 0                    | 0                    |
| <u>12,408</u>            | <u>6,989</u>                | <u>0</u>              | <u>0</u>               | <u>127,200</u>       | <u>122,504</u>       | <u>122,504</u>       |
| <u>366,204</u>           | <u>31,152</u>               | <u>-1,114</u>         | <u>-2,474</u>          | <u>345,116</u>       | <u>553,841</u>       | <u>553,841</u>       |
| <br>                     | <br>                        | <br>                  | <br>                   | <br>                 | <br>                 | <br>                 |
| -423,259                 | -10,728                     | 496                   | 0                      | -385,929             | -173,540             | -173,540             |
| 38,894                   | -6,907                      | 0                     | 0                      | 329,064              | 455,715              | 455,715              |
| -604,276                 | -11,771                     | -202                  | 0                      | -1,402,468           | 1,512,295            | 3,141,139            |
| 0                        | 0                           | 0                     | 0                      | 0                    | 126,043              | 126,043              |
| <u>-988,641</u>          | <u>-29,406</u>              | <u>294</u>            | <u>0</u>               | <u>-1,459,333</u>    | <u>1,920,513</u>     | <u>3,549,357</u>     |
| <u>-\$622,437</u>        | <u>\$1,746</u>              | <u>-\$820</u>         | <u>-\$2,474</u>        | <u>-\$1,114,217</u>  | <u>\$2,474,354</u>   | <u>\$4,103,198</u>   |
| <br>                     | <br>                        | <br>                  | <br>                   | <br>                 | <br>                 | <br>                 |
| 3,140                    | 11                          | 0                     | 0                      | 5,613                | 43,246               | 43,246               |
| 3,140                    | 11                          | 0                     | 0                      | 5,613                | 43,246               | 43,246               |
| 37,986                   | 7,698                       | 0                     | 0                      | 124,590              | 145,844              | 145,844              |
| 0                        | 0                           | 0                     | 0                      | 0                    | 3,901                | 3,901                |
| 0                        | 0                           | 0                     | 0                      | 0                    | 2,392                | 2,392                |
| <u>37,986</u>            | <u>7,698</u>                | <u>0</u>              | <u>0</u>               | <u>124,590</u>       | <u>152,137</u>       | <u>152,137</u>       |
| <u>\$41,126</u>          | <u>\$7,709</u>              | <u>\$0</u>            | <u>\$0</u>             | <u>\$130,203</u>     | <u>\$195,383</u>     | <u>\$195,383</u>     |
| <u>-\$581,311</u>        | <u>\$9,455</u>              | <u>-\$820</u>         | <u>-\$2,474</u>        | <u>-\$984,014</u>    | <u>\$2,669,737</u>   | <u>\$4,298,581</u>   |

The accompanying notes are an integral part of the financial statements.  
See notes 1 and 22.

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# Working Capital Fund

## Required Supplementary Information



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| <b>Schedule, Part A<br/>DoD Intra-governmental Asset Balances<br/>(\$ in thousands)</b> | <b>Treasury<br/>Index</b> | <b>Fund Balance<br/>with Treasury</b> | <b>Accounts<br/>Receivable</b> | <b>Loans<br/>Receivable</b> | <b>Investments</b> | <b>Other</b> |
|---|---------------------------|---------------------------------------|--------------------------------|-----------------------------|--------------------|--------------|
| Executive Office of the President   | 11                        |                                       | \$1                            |                             |                    |              |
| Department of Agriculture   | 12                        |                                       | \$1                            |                             |                    |              |
| Department of Commerce  | 13                        |                                       | \$18,512                       |                             |                    |              |
| Department of the Interior  | 14                        |                                       | \$1                            |                             |                    |              |
| Department of Justice   | 15                        |                                       | \$341                          |                             |                    |              |
| Navy General Fund   | 17                        |                                       | \$12,878                       |                             |                    |              |
| Department of State   | 19                        |                                       | \$18                           |                             |                    |              |
| Department of the Treasury  | 20                        | \$463,311                             | \$490                          |                             |                    |              |
| Army General Fund   | 21                        |                                       | \$9,226                        |                             |                    |              |
| General Services Administration   | 47                        |                                       | \$122                          |                             |                    |              |
| National Science Foundation   | 49                        |                                       | \$9                            |                             |                    |              |
| Air Force General Fund  | 57                        |                                       | \$453,277                      |                             |                    | \$0          |
| Department of Transportation  | 69                        |                                       | \$1,133                        |                             |                    |              |
| Small Business Administration   | 73                        |                                       | \$0                            |                             |                    |              |
| National Aeronautics and Space Administration   | 80                        |                                       | \$1,223                        |                             |                    |              |
| Department of Energy  | 89                        |                                       | \$14                           |                             |                    |              |
| US Army Corps of Engineers  | 96                        |                                       | \$3                            |                             |                    |              |
| Other Defense Organizations General Funds   | 97                        |                                       | \$42,761                       |                             |                    |              |
| Other Defense Organizations Working Capital Funds                                       | 97-4930                   |                                       | \$79,869                       |                             |                    |              |
| Army Working Capital Fund   | 97-4930.001               |                                       | \$53                           |                             |                    | \$0          |
| Navy Working Capital Fund   | 97-4930.002               |                                       | \$8,095                        |                             |                    |              |
| Air Force Working Capital Fund  | 97-4930.003               |                                       |                                |                             |                    |              |
| <b>Totals might not match reports</b>   | <b>TOTAL</b>              | <b>\$463,311</b>                      | <b>\$628,027</b>               | <b>\$0</b>                  | <b>\$0</b>         | <b>\$0</b>   |

| <b>Schedule, Part B<br/>DoD Intra-governmental Entity Liabilities<br/>(\$ in thousands)</b> | <b>Treasury<br/>Index</b> | <b>Accounts<br/>Payable</b> | <b>Debts/<br/>Borrowings<br/>from Other<br/>Agencies</b> | <b>Other</b>    |
|---|---------------------------|-----------------------------|--|-----------------|
| Navy General Fund   | 17                        | \$341                       |  | \$8             |
| Army General Fund   | 21                        | \$999                       |  | \$0             |
| Office of Personnel Management  | 24                        |                             |  | \$9,630         |
| Air Force General Fund  | 57                        | \$15,060                    |  | \$1,600         |
| Department of Transportation  | 69                        |                             |  | \$18            |
| National Aeronautics and Space Administration   | 80                        |                             |  | \$0             |
| Department of Energy  | 89                        |                             |  | \$0             |
| Other Defense Organizations General Funds   | 97                        | \$9,117                     |  | \$4             |
| Other Defense Organizations Working Capital Funds   | 97-4930                   | \$119,710                   |  |                 |
| Army Working Capital Fund   | 97-4930.001               | \$4,269                     |  | \$0             |
| Navy Working Capital Fund   | 97-4930.002               | \$5,199                     |  | \$124           |
| <b>Totals might not match reports</b>   | <b>TOTAL</b>              | <b>\$154,695</b>            | <b>\$0</b>   | <b>\$11,384</b> |

| <b>Schedule, Part C<br/>DoD Intra-governmental Revenue and Related Costs<br/>(\$ in thousands)</b> | <b>Treasury<br/>Index</b> | <b>Earned<br/>Revenue</b> |
|--|---------------------------|---------------------------|
| Executive Office of the President  | 11                        | \$775                     |
| Department of Commerce   | 13                        | \$133,236                 |
| Department of the Interior   | 14                        | \$87                      |
| Department of Justice  | 15                        | \$2,053                   |
| Navy General Fund  | 17                        | \$153,814                 |
| Department of State  | 19                        | \$254                     |
| Department of the Treasury   | 20                        | \$696                     |
| Army General Fund  | 21                        | \$65,577                  |
| General Services Administration  | 47                        | \$590                     |
| National Science Foundation  | 49                        | \$3                       |
| Air Force General Fund   | 57                        | \$8,259,035               |
| Department of Transportation   | 69                        | \$8,457                   |
| Small Business Administration  | 73                        | \$2                       |
| National Aeronautics and Space Administration  | 80                        | \$5,828                   |
| Department of Energy   | 89                        | \$185                     |
| US Army Corps of Engineers   | 96                        | \$8                       |
| Other Defense Organizations General Funds  | 97                        | \$1,169,656               |
| Other Defense Organizations Working Capital Funds  | 97-4930                   | \$900,924                 |
| Army Working Capital Fund  | 97-4930.001               | \$5,806                   |
| Navy Working Capital Fund  | 97-4930.002               | \$200,415                 |
| <b>Totals might not match reports</b>  | <b>TOTAL</b>              | <b>\$10,907,401</b>       |

| <b>Schedule, Part E<br/>DoD Intra-governmental non-exchange revenues<br/>(\$ in thousands)</b> | <b>Treasury<br/>Index</b> | <b>Transfers<br/>In</b> | <b>Transfers<br/>Out</b> |
|--|---------------------------|-------------------------|--------------------------|
| Air Force General Fund   | 57                        |                         | \$40,515                 |
| Other Defense Organizations Working Capital Funds  | 97-4930                   | \$78,000                | \$599                    |
| <b>Totals might not match reports</b>  | <b>TOTAL</b>              | <b>\$78,000</b>         | <b>\$41,114</b>          |

# Working Capital Fund

## Audit Opinion



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INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

January 6, 2003

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Air Force Working Capital Fund Fiscal Year 2002 Principal Financial Statements (Report No. D-2003-042)

The Chief Financial Officers Act of 1990, as amended, requires the Inspector General of the Department of Defense to audit the accompanying Consolidated Balance Sheet of the Air Force Working Capital Fund as of September 30, 2002 and 2001; the related Consolidated Statements of Net Cost and Changes in Net Position; and the Combined Statements of Financing<sup>1</sup> and Budgetary Resources. These principal financial statements are the responsibility of Air Force management. Air Force management is also responsible for implementing effective internal control and for complying with laws and regulations. We are also including the required reports on internal control and compliance with laws and regulations.

### **Disclaimer of Opinion on the Financial Statements**

The Air Force did not provide the financial statements on a timely basis in accordance with the terms of engagement. In addition, as discussed in the Attachment, previously identified material weaknesses in internal control and instances of noncompliance with laws and regulations continued to affect the current period. Because of those conditions, management acknowledged that the financial data reported to the financial statements were unreliable. These deficiencies would have precluded an audit opinion. As a result, we were unable to complete required audit procedures. Therefore, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the referenced financial statements and other information.<sup>2</sup>

### **Summary of Internal Control**

In planning and performing our audit, we considered the Air Force internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with Office of Management and Budget guidance, but not to express an opinion on internal control. Accordingly, we do not express

<sup>1</sup> The Office of Management and Budget requires a Consolidated Statement of Financing, instead of the Combined Statement of Financing prepared by the Air Force.

<sup>2</sup> Other information includes Management's Discussion and Analysis, the Required Supplementary Information, and Other Accompanying Information.

an opinion on internal control over financial reporting and compliance because management acknowledged at the beginning of our engagement that previously identified reportable conditions,<sup>3</sup> all of which are material, continued to exist and affect the current period. Therefore, we did not perform tests of Air Force internal control. See the Attachment for details on material internal control weaknesses.<sup>4</sup> A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, noncompliance, or losses that are material in relation to the financial statements would be prevented or detected on a timely basis. Our internal control work would not necessarily disclose all material weaknesses.

### Summary of Compliance With Laws and Regulations

Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because management acknowledged at the beginning of our engagement that previously reported instances of noncompliance continue to exist and affect the current period. Therefore, we did not determine whether the Air Force was in compliance with all applicable laws and regulations related to financial reporting. See the Attachment for details on compliance with laws and regulations.

In order for DoD to comply with statutory reporting requirements and applicable financial systems requirements, the Under Secretary of Defense (Comptroller)/Chief Financial Officer is developing a DoD-wide financial management enterprise architecture. DoD anticipates developing and implementing the financial management enterprise architecture by 2007. Until the architecture is developed and implemented, the Air Force will be unable to fully comply with the statutory reporting requirements.

We caution that other noncompliance may have occurred and not been detected. Further, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to express an opinion on compliance with applicable laws and regulations.

### Management Responsibility

Management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles,
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 are met,

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<sup>3</sup> Reportable conditions are matters coming to the auditor's attention that, in his or her judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in financial statements.

<sup>4</sup> Section 1008(d) of the FY 2002 National Defense Authorization Act requires the Inspector General of the Department of Defense to perform only the audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management.

A regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.  
—Constitution of the United States, Article 1, Section 9

- ensuring that Air Force Working Capital Fund financial management systems substantially comply with Federal Financial Management Improvement Act of 1996 requirements, and
- complying with applicable laws and regulations.



David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

Attachment

As stated

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## Reports on Internal Control and Compliance with Laws and Regulations

### Internal Control

Management is responsible for implementing effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; and that assets are safeguarded. We did not perform tests of Air Force internal control over financial reporting and we did not obtain sufficient evidence to support or express an opinion on internal control because management acknowledged at the beginning of our engagement that material weaknesses identified in prior periods continued to exist and affect the current period.\*

Previously identified reportable conditions, all of which are material, continue to exist in the following areas.

#### Financial Management Systems

- Supporting financial management systems did not substantially comply with Federal Financial Management Systems Requirements to maintain adequate subsidiary records for audit trails in Air Force and supporting Defense Finance and Accounting Service (DFAS) financial management systems, implement accounting systems with transaction-driven general ledgers, and provide adequate applications controls to critical Air Force feeder systems.
- The Air Force was unable to implement fully all elements of generally accepted accounting principles and Office of Management and Budget Bulletin No. 01-09, "Form and Content of Agency Financial Statements," September 25, 2001, due to limitations in the financial management processes and systems, including nonfinancial feeder systems and processes.

#### Intragovernmental Eliminations

- To prepare reliable financial statements, transactions occurring between Components or activities within DoD or between two or more Federal agencies must be eliminated. However, the Air Force could not accurately identify all intragovernmental transactions by customer.
- The Air Force was unable to reconcile intragovernmental accounts receivable or accounts payable balances, or reconcile intragovernmental revenue balances with its trading partners.

#### Accounting Policies and Practices

- Air Force financial management systems were not transaction-driven for budgetary accounts, therefore, in some cases, proprietary and statistical accounts were used to develop the Report on Budget Execution (SF 133) and the Combined Statement of Budgetary Resources.

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\* Section 1008(d) of the FY 2002 National Defense Authorization Act requires the Inspector General of the Department of Defense to perform only the audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management.

- Air Force and DFAS personnel did not perform reconciliation and systems validations to verify the accuracy of accounts receivable from foreign military sales, progress payments to contractors, and accounts payable from the Materiel Support Division.
- Air Force Working Capital Fund resource managers did not always maintain adequate documentation or use transaction subsidiary ledgers and special journals to support recorded trial balance accounts.
- Management controls were not adequate to ensure that all accounting entries were proper and supported. The DFAS Denver Center had not implemented adequate procedures for ensuring that all journal vouchers are fully supportable and documented.

### Inventory

- Air Force supply management systems did not provide sufficient audit trails to confirm and value the in-transit inventory reported as part of inventory held for sale on the Consolidated Balance Sheet.
- Instead of using historical costs, the Air Force Working Capital Fund valued operating material and supplies based on standard prices and inventory using latest acquisition cost. In addition, the consumption method was not always used in accounting for the use of operating materials and supplies. Further, uncertainties existed regarding the existence and completeness of the quantities used to derive the balances reported in the financial statements for inventory and operating materials and supplies.

### Revenue and Expense Recognition

- Air Force and DFAS personnel did not report Government-furnished equipment provided to depot maintenance contractors at no charge to the Depot Maintenance Activity Group in accordance with SFFAS No. 6, "Accounting for Property, Plant, and Equipment."
- The Air Force did not recognize an allowance for estimated uncollectible amounts with other Federal agencies.

### Property, Plant, and Equipment

- Property, plant, and equipment values could not be verified.

### Compliance with Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because management acknowledged at the beginning of our engagement that previously reported instances of noncompliance continue to exist and affect the current period. Therefore, we did not determine whether the Air Force was in compliance with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to express an opinion on compliance with applicable laws and regulations.

**Statutory Financial Management Systems Reporting Requirements.** The Air Force is required to comply with the following financial management systems reporting requirements.

The Federal Financial Management Improvement Act of 1996 requires DoD to establish and maintain financial management systems that comply substantially with the Federal Financial Management Systems Requirements, generally accepted accounting principles, and the U.S. Government Standard General Ledger at the transaction level. In addi-

tion, the Federal Managers' Financial Integrity Act of 1982 requires DoD to evaluate the systems and to annually report whether those systems are in compliance with applicable requirements.

The Air Force acknowledged that many of its critical financial management and feeder systems did not comply substantially with the Federal Financial Management Systems Requirements, generally accepted accounting principles, and the U.S. Government Standard General Ledger at the transaction level. In an attempt to comply with statutory reporting requirements and applicable financial systems requirements, DoD plans to develop a DoD-wide financial management enterprise architecture. The architecture is intended to provide a "blueprint" of the Department's financial management systems and processes to initiate a comprehensive financial management reform effort. Until the architecture is developed, the Air Force will be unable to fully comply with statutory reporting requirements. Therefore, we did not perform tests of compliance for these requirements.

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**United States Air Force**  
Annual Financial Statements



The U.S. Air Force Annual Financial Statement is available for viewing on the Internet at  
[www.saffm.hq.af.mil/FMP/cfo.html](http://www.saffm.hq.af.mil/FMP/cfo.html).